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THE SMALL BUSINESS ADVISER ■ PUBLISHED BY U.S. CHAMBER OF COMMERCE

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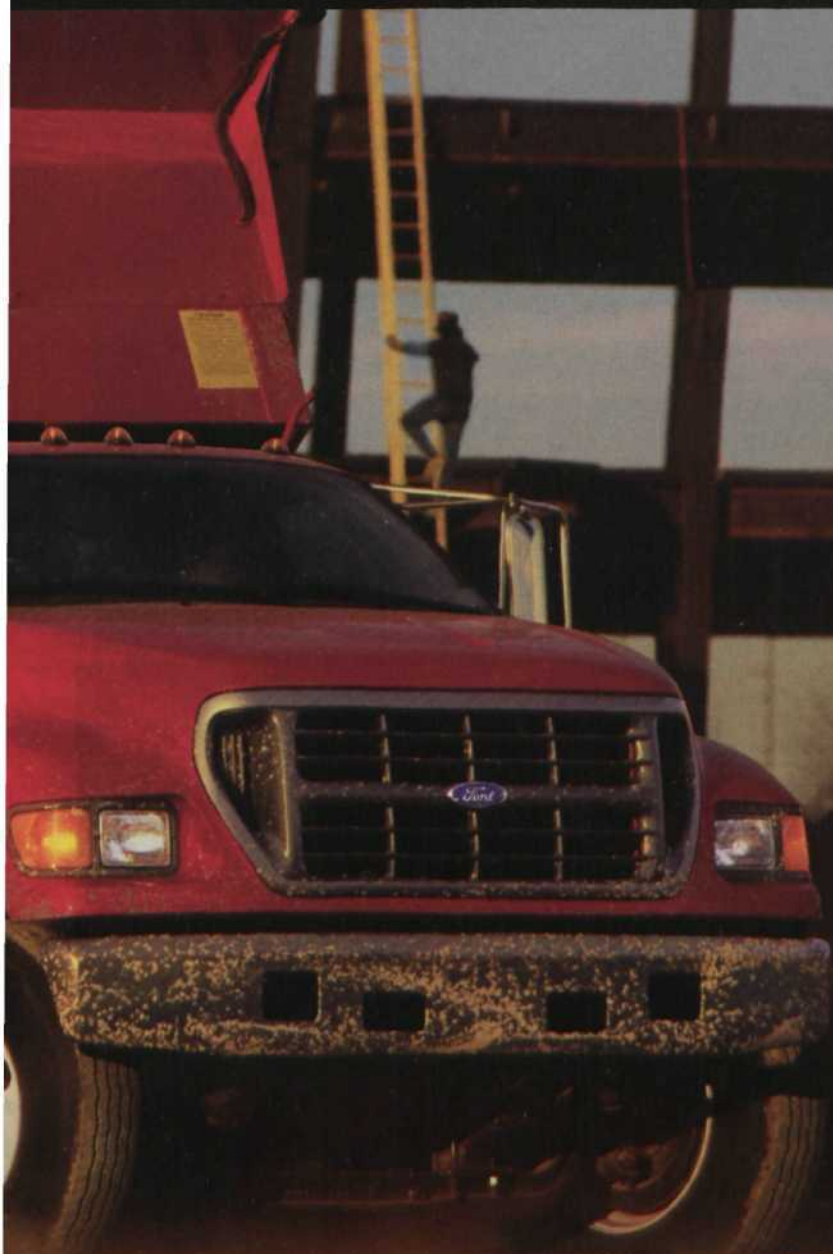
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June 1999
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PHOTO: GUM CALLAWAY

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The franchising industry is experiencing a sea change as it enters the new millennium.

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PHOTO: © ROBERT BURROUGHS

Reaching for the sky—with satellite communications—are Mail Boxes Etc.'s James H. Amos Jr., right, and Thomas K. Herskowitz.

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On The Cover:

E. Morgan Arundel makes fast service for customers a top priority at his company, which repairs hydraulic hoses.

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COVER DESIGN: ALBERTO PACHECO



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The end of *Nation's Business* signals a new approach for a new century.



ILLUSTRATION: GEORGIA LEIGH McDONALD

To ease their worries about costly computer calamities that might befall them when the calendar turns to 2000, businesses people now can buy Y2K insurance.

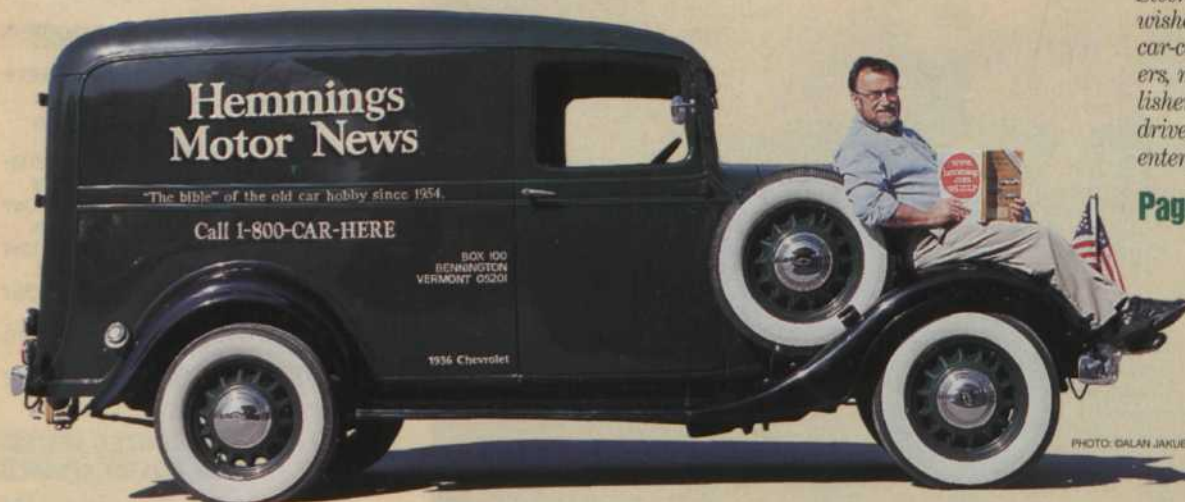
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PHOTO: ORCHARD HOWARD

Determined to fight back after her heating-oil company hit bottom, owner Loretta T. DeGrazia rebuilt the business.

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Steered by the wishes of his car-collector readers, magazine publisher Terry Ehrich drives a \$20 million enterprise.

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PHOTO: GALAN JAKUBEK

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wouldn't you?

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Letters

An Appreciation For Depreciation



Your article "Small-Business Tax Relief Sought As Debate Begins" [Dateline: Washington, April] reminded me of the adage "I'm from the government and I'm here to help."

The easiest, simplest way to help small businesses—or, for that matter, any businesses—would be to allow them to depreciate equipment as fast as they could pay for it.

The increased cash flow that would result from the immediate but temporary tax reduction would reduce significantly the need for businesses to obtain loans.

Gregory J. Lambert
President
Mid Oregon Labor
Contractors, Inc.
Prineville, Ore.

Estate Tax Is Deadly For Family Businesses



As an owner of a family business, I was especially interested in the results of Question 5 in your February Where I Stand poll (Poll Results, April).

In answer to "Which one of these taxes would you most prefer to see reduced or eliminated?" the highest percentage—35 percent—responded "Estate tax."

If all readers were owners of family businesses who had children who were capable of keeping the business going, I would bet that the percentage would be around 90 percent.

Estate taxes often force successful family businesses to go out of business or be sold. It should be a crime for the Internal Revenue Service to use the estate tax to kill jobs. If Congress were really interested in helping people keep their jobs, it would eliminate the "death-of-jobs" tax.

Ellsworth McKee
Chairman
McKee Foods Corp.
Collegedale, Tenn.

Company Web Sites Should Put Customers At Ease



Your article "Avoid Getting Stung By An Internet Scam" [April] made some important points.

Firms that have their own sites on the World Wide Web should exploit those aspects of their business that make the company attractive to prospective customers.

Among other things, a Web site should give the company's retail location, should say how long the company has been in business,

and should list the names of satisfied customers, if the customers give their permission.

Ira Hoffman
Owner
FSP Books & Videos
Hudson, Mass.

Giving Flight Crews Some Space On Board



I was surprised that Kevin P. McAuliffe took umbrage at allowing flight crews to store their bags in the overhead bins ["Flight Attendants Could Make Room For Passengers," Letters, April].

What is the ratio of attendants to passengers? Aren't the attendants on board first, and do they not have all their luggage stored before the passengers get on?

The problem is passengers who want to take all their luggage on board so they won't have to pick up their bags after the flight. They try to cram their full-size bags into the small overhead compartments, and the ensuing traffic jam in the aisle compounds the problem.

Chris Edgell
President
Apex Welding Supplies, Inc.
Santa Cruz, Calif.

Holding Up The Works



I read with interest Kevin P. McAuliffe's letter regarding carry-on baggage.

As a captain with a major airline, I can understand his concern on this subject, but his solution—to require flight crews to check their baggage—simply is not realistic.

Flight crews sometimes have to change planes three or four times a day. If they had to check their bags for each flight, after each change of plane they would have to go to baggage claim to get their luggage. Then they would have to go back through security, go to their next aircraft, perform their safety checks, and board the passengers.

This process would take about 45 minutes for each change of plane. Multiply this by four and it would mean a three-hour delay for the last flight of the day, not to mention a delay for the first segment of the next day.

While I acknowledge that carry-on space is at a premium, McAuliffe's idea is not a practical solution.

Darell Chambers
San Antonio

Finding Out More About Direct Deposit



Thank you for "Pluses Add Up For Direct Deposit Of Paychecks" [Small Business Financial Adviser, March]. As a representative of the Direct Deposit and Direct Payment Coalition, I appreciate *Nation's Business* heightening awareness about direct deposit throughout the country.

Your readers can find more information about direct deposit at our newly launched site on the World Wide Web. The site, at www.directdeposit.org, dispels common misperceptions and answers frequently asked questions about direct deposit, helps evaluate the potential savings that a company can realize from direct deposit, and offers an interactive U.S. map to lead consumers to direct-deposit experts in their region.

Jennifer Ellis
Spokeswoman
Direct Deposit and Direct Payment Coalition
St. Louis



The End Of A Long Run

Dear Reader:

Management guru Peter Drucker once said that if you want to do something new, you have to stop doing something old. And here at the U.S. Chamber of Commerce, we have many new things we want to do. Since Tom Donohue became our new president and chief executive officer, the U.S. Chamber has focused itself on becoming the strongest advocacy force for economic growth and security in the United States.

To help do that, the U.S. Chamber is moving full speed into the age of the Internet, expanding its online services and exploring new communications vehicles, including radio and electronic bulletins broadcast through cyberspace. The U.S. Chamber is also strengthening its monthly newsletter, *The Business Advocate*.

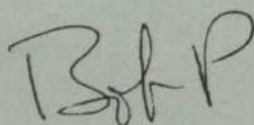
These moves will enable the Chamber to quickly and more effectively serve, inform, and rally the 3 million businesses that constitute the U.S. Chamber federation. This reallocation of resources, we're confident, will mean more legislative victories for business in Congress. And that means you, not the bureaucrats in Washington, will be able to run your business.

The Chamber also will be able to provide you in a more timely manner with information and services vital to helping you run your business more effectively and efficiently.

That has been the mission of the U.S. Chamber of Commerce since its founding in 1912. Unfortunately, as Mr. Drucker challenged us, all of this new activity means we must stop doing some things. That's why the U.S. Chamber is ceasing publication of *Nation's Business*, which has served the business community faithfully since 1912.

Now it's time to do something new. And I'm inviting you to come along with the U.S. Chamber as it enters the 21st century and the cyber age on the cutting edge of information delivery. Look for the Chamber at www.uschamber.com.

Thank you for your support of the goals of the U.S. Chamber. Working together, we can ensure that the United States continues its economic growth and security.



Robert J. Perkins



PHOTO: T. MICHAEL KEZA

Nation's Business



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ENTREPRENEUR'S NOTEBOOK

By Peter Jenkins

Making The Most Of Trade Shows

As you pass the booths at some trade shows, you're likely to get the impression that the people who talk the fastest or who give away the best free items get all the orders.

There's no question that handing out lots of logo-embossed trinkets is a sure way to draw a crowd, but the \$64,000 question—even for those whose products just naturally draw attention—is: "How do you turn that crowd into customers?"

At Boston Warehouse Trading Corp.—a distributor of attention-getting housewares and gifts—25 years of experience has taught us that the trade shows that benefit us most are those that generate transactions beyond the handing out of free gifts.

At the same time, we've learned that just because a trade show doesn't generate immediate orders doesn't mean it won't help us.

When the company was smaller, I agonized over trade shows that didn't result in instant sales increases. Today, with 70 employees and annual sales of \$25 million, our most important show of the year isn't where we get the most orders on the spot but rather where we don't take orders but get to meet the decision makers of our largest customers.

For any company, a presence at trade shows can represent a major expense. Here are some ways to make the most of that money and win the trade-show game:

Know why you're there. Different shows have different purposes. To be successful, you need to determine the show's main purpose for both your company and your potential customers. Is it geared mainly to selling and buying, for instance, or more toward networking with those in the industry? Understanding why you're at a show is vital to developing your expectations and assessing your success.

Make them remember you. Whether you spend \$2,000 or \$500,000 on a booth,

Peter Jenkins is president of Boston Warehouse Trading Corp. in Norwood, Mass. He prepared this account with Contributing Editor Susan Biddle Jaffe.



PHOTO: GRIFF FRIEDMAN—BLACK STAR

Meeting customers' decision makers can be the most valuable aspect of a trade show, says Peter Jenkins of Boston Warehouse Trading Corp.

your display must be spectacular. You have just a few seconds to grab buyers' attention, so you have to create an ambience that helps show your products in their best light.

Knowing what show attendees expect in a display—whether they value efficiency more than aesthetics, for instance—is key to designing and setting up your booth and establishing an identity for your company.

Our booths have had continuity from year to year—which makes them easily identifiable—but buyers also expect them to reflect the trend-setting nature of our merchandise.

Make it easy for buyers to buy. Put stickers on your merchandise that include prices and identify the items—distinguishing the 7-inch candle from the 9-inch, for instance.

Make sure that staff members are knowledgeable about the details of the products and the expertise of other staffers.

It's equally important to inform staff members in advance about what's expected of them in terms of individual performance and company goals—in short, what their roles will be in making the show a success.

Take a cue from the past. Analyze data from previous shows. Develop a system for tracking every item sold to new and repeat customers. Identify results such as the total number of orders and the average order size.

This information will help you to develop future displays based on buying preferences and create buyer-incentive programs aimed at increasing sales to each show's target audience.

Give a catalog, get a business card, follow the lead. It's important to follow up on the sales leads generated at a show. Develop internal systems that allow you to track customer contacts and orders.

If your sales force determines that nothing has become of a lead two to three months after a show, make sure the prospective buyer is contacted again. Doing everything else right at a show doesn't mean much if you let solid sales leads slip through the cracks after the gear has been packed up. **NB**

WHAT I LEARNED

Despite the show-business aspects of trade events, a firm's success at a show is judged by more than the crowd size at its booth.

Dateline: Washington

Business news in brief from the nation's capital.

By James Worsham

REGULATION

U.S. Chamber Wins Challenge To OSHA Workplace-Safety Rule

Business scored a major victory when a federal court struck down an Occupational Safety and Health Administration program that tried to lure businesses into a "voluntary" program with the threat of safety inspections.

In a lawsuit brought by the U.S. Chamber of Commerce and other business groups, the U.S. Court of Appeals for the District of Columbia Circuit said OSHA illegally instituted its Cooperative Compliance Program, which required employers to implement safety plans and comply

with standards not currently in law.

OSHA, an agency of the U.S. Department of Labor, had begun the program without the prior-notice and comment period required for government regulations. The agency has not indicated whether it will appeal the decision.

Stephen A. Bokor, executive vice president of the National Chamber Litigation Center, the U.S. Chamber's legal arm, said OSHA imposed the rules on business without giving companies the right to comment on them. "It demonstrates OSHA's paternalistic attitude that they know better than business and have nothing to learn from business," he said. ■

BUSINESS COSTS

How Costs Have Risen

Use this handy guide to determine if a recurring business expenditure has risen by more or less than the cumulative rate of inflation, as measured by the Consumer Price Index. Multiply the outlay in any year by the figure next to the year. Then compare the result—now adjusted for inflation—with your 1998 outlay to see if the cost has increased or decreased.

1970	4.20	1980	1.98	1990	1.25
1971	4.02	1981	1.79	1991	1.20
1972	3.90	1982	1.69	1992	1.16
1973	3.67	1983	1.64	1993	1.13
1974	3.31	1984	1.57	1994	1.10
1975	3.03	1985	1.51	1995	1.07
1976	2.86	1986	1.49	1996	1.04
1977	2.69	1987	1.43	1997	1.02
1978	2.50	1988	1.38	1998	1.00
1979	2.25	1989	1.31		

SOURCE: U.S. BUREAU OF LABOR STATISTICS; ASSUMES A 1.6 PERCENT INCREASE IN THE CONSUMER PRICE INDEX FOR 1998.

TAXATION

Tax-Cut Prospects Uncertain; Lawmakers Hope For Big Surplus

Prospects for deep federal tax cuts are growing dimmer. With a large part of the projected surplus reserved for Social Security and with the costs of U.S. military action in Kosovo mounting, there is likely to be only a modest amount for tax cuts.

But GOP congressional leaders are hoping that the Congressional Budget Office's midyear report, due this summer, will show

a bigger surplus than is now forecast.

Under the budget resolution passed in April, the House Ways and Means Committee and the Senate Finance Committee must draft their tax-cut plans by mid-July.

Tax breaks most often mentioned include reforms in the alternative minimum tax, relief from the marriage penalty, easing of the earnings limit for Social Security recipients, and extension of several longstanding tax credits, such as those for research and for hiring disadvantaged people. ■

ROUNDUP

More Small-Business Bills Approved By Congress, Clinton

Several small-business measures that easily passed Congress this spring have been signed into law by President Clinton.

They follow the earlier signing of a measure directing the Small Business Administration (SBA) to provide loans to small companies to help them fix year 2000 computer problems by repairing hardware or software or to cover losses attributable to the problem.

The new laws include:

More And Better Financing

One new law, the Small Business Investment Improvement Act, PL-106-9, expands the ability of Small Business Investment Companies, which provide equity capital and long-term financing to small businesses, to offer capital in the form of equity financing, long-term loans, and hybrid loan arrangements. The SBICs are overseen by the SBA.

Boost For Women's Business Centers

The Women's Business Center Amendments Act, PL-106-17, bolsters the Women's Business Center programs by increasing the programs' annual authorized appropriations level and changing funding rules for women entrepreneurs to get access to investment capital. The centers are under the aegis of the SBA.

Disaster Aid For Small Firms

This new law, the Disaster Mitigation Coordination Act, PL-106-24, sets up a pilot loan program, from fiscal 2000 to fiscal 2004, at the SBA for small businesses and homeowners to use to improve their buildings, relocate, or take other measures to lessen the impact of natural disasters.

Microloan Requirements Eased

Another new law, the Microloan Program Technical Corrections Act, PL-106-22, eases the cash-reserve requirements on so-called intermediaries who make microloans to small businesses under an SBA program. That will free up more money for the loans themselves. The law also requires that at least \$800,000 be available to each state annually for microloans. ■

Managing Your Small Business

Inventiveness on request; the proper spin on good PR; help for firms reaching out to communities.

By Michael Barrier

TECHNOLOGY

When The Answer May Be An Invention Made To Order

Let's say you make candy-coated widgets and there's a stubborn bottleneck that seems to be built in to the production process. You've looked around for an off-the-shelf solution but found none. Possibly a big research-and-development outfit would be willing to take on the job, but your company can't afford such high-powered help.

Invent Resources, a two-year-old firm in Lexington, Mass., is offering itself as an answer to this dilemma—an answer involving no upfront costs. The company isn't interested in such fees, says A. Ze'ev Hed, one of the principals, because "we work for the future royalties."

In other words, if Invent Resources accepts an assignment from you and comes up with a solution, it will not sell you the invention but rather will sell you an exclusive license to use it.

The company's principals are veteran scientists and engineers, formerly on the payrolls of large companies, with a fistful of patents to their credit. The first product licensed from Invent Resources—a new kind of high-speed hand dryer—will come on the market this year.

Other products in the pipeline range from top-secret toys to a waterless washing machine to what Hed calls a "DNA extractor." Clients range in size from multi-billion-dollar corporations to individuals who hope to use an invention as the basis for a new venture.

Invent Resources won't accept just any project. "What we tell the client is that if there's not at least a \$5 million market" for the invention, "it's probably not worth pursuing," says Richard Pavelle, the firm's president.

When Invent Resources comes up with an idea that the client likes, the client is asked to pay a "stand-still" fee, typically \$2,000 for two months. The client then can take that time to decide whether to enter into a full licensing agreement.

Sometimes, Hed says, a client backs out. "We often end up developing something," he says, "only to find later on that the urgency is no longer there" because the com-



PHOTO: CRICK FRIEDMAN—BLACK STAR

Tailoring solutions for small companies' business problems is the core effort of Invent Resources, a Boston-area firm of veteran scientists and engineers. From left are George Freedman, Sol Aisenberg, A. Ze'ev Hed, and Richard Pavelle.

pany's fortunes have changed. "That's why we have such a large inventory of our own inventions. Smaller companies go up and down very rapidly."

Such episodes are not discouraging, though. "It doesn't take many successes to make this a very worthwhile endeavor" because the flow of royalties can continue

for a long time, says George Freedman, another principal.

If you would like to contact Invent Resources about an invention that you need—or about what might be in their inventory—call (781) 862-0200. Invent Resources is also on the World Wide Web, at www.weinvent.com.

PUBLIC RELATIONS

Don't Let Worry Over "Spin" Stop You From Telling Your Story

"Spin" is one of those words that used to be harmless enough—remember when you'd take the car out for a spin? But the word has acquired a bad connotation in recent years, largely through its use by politicians.

As Art Stevens, chairman and CEO of Lobsenz-Stevens, Inc., a New York City public-relations firm, puts it, the word "suggests that public-relations professionals no longer tell the truth, but engage in a brand new art form that consciously constructs, molds, and creates the truth where it hasn't existed before."

Not so, Stevens says. When you're trying to persuade your target audience to

buy your products or use your services, he says, "truth can still be distinguished from lying." Your truth will be competing with other truths, and what will decide the contest is not how truthful you are, but how effectively you communicate that truth.

"The fact that modern-day public-relations professionals possess the skills to persuade audiences to their clients' positions and points of view should not be confused with lying or deceit," Stevens says.

So when you're deciding how to get your company's message in front of the public, don't recoil from a course of action just because someone applies the label "spin" to it. Lying is bad, but, as Stevens says, "to be passionate about your version of the truth is considered noble."

PHILANTHROPY

Doing Well And Doing Good: How They Can Fit Together

As a small business prospers and the day-to-day pressures of keeping the company alive recede, owners may find themselves looking for ways to increase the firm's involvement in the community.

One avenue for doing that is offered by HOSTS Corp., an educational software company headquartered in Dallas. In many respects, HOSTS is itself a typical example of a successful small business.

HOSTS—the initials stand for Help One Student to Succeed—is thriving in an arena that many people might assume is reserved for nonprofit philanthropic organizations. HOSTS provides school systems with a database and software that enable teachers to tailor programs to the specific needs of children struggling to learn to read or do math.

The company also shows educators how to train volunteers—including a growing number of business people—to mentor the children one-on-one, using the HOSTS structure. "On any given day," says HOSTS CEO Chad Woolery, "we have 90,000 mentors out there."

Business people stay involved as mentors, he says, because "there's a bottom line. They see that it's working."

HOSTS' for-profit status caused some skepticism among potential customers, Woolery acknowledges, but he adds that "I think they're opening up" as school districts realize that almost all their vendors are for-profit companies.

Founded in 1971, HOSTS has 112 full-time employees and annual revenues of around \$20 million. Both figures are much higher than four years ago, when HOSTS, then based in Vancouver, Wash., was named a National Blue Chip Enterprise in the annual competition co-sponsored by life-insurance firm MassMutual—The Blue Chip Company, the U.S. Chamber of Commerce, and *Nation's Business*.

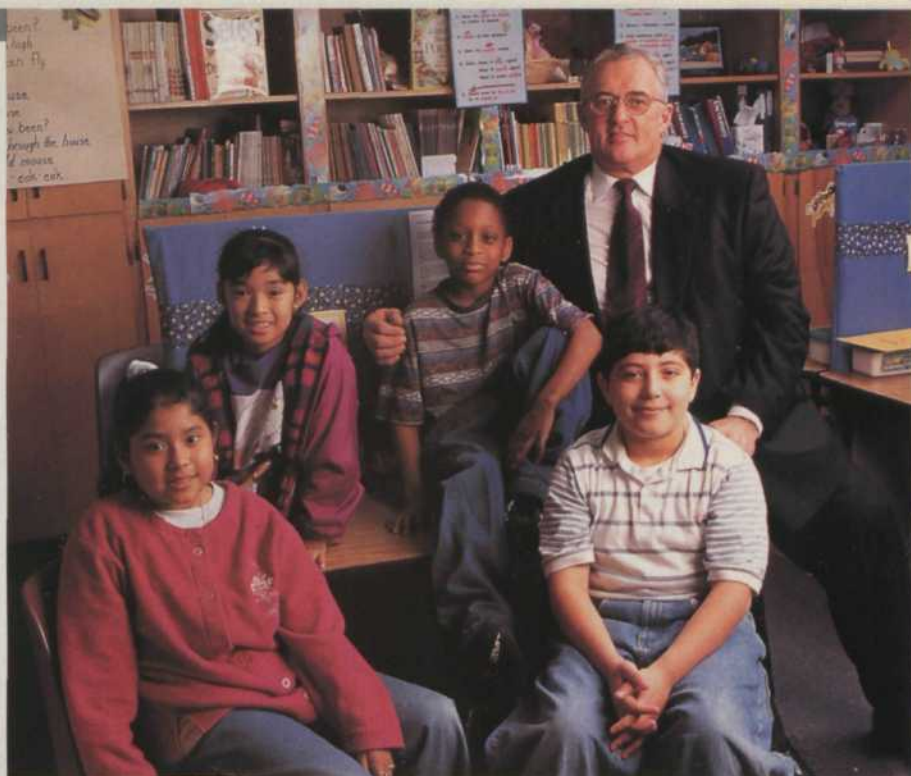


PHOTO: GERRIE E. RALEIGH

Helping children learn and training adults—among them business people—to mentor the pupils is the aim of educational software from Dallas-based HOSTS Corp. With CEO Chad Woolery at Mendenhall Elementary School in Plano, Texas, are, clockwise from the left, Veronica Rodriguez, Gaby Rosales, Cagen Norris, and Ahmed Nofal.

HOSTS works not just with individual business people but with corporate partners, including Kellogg Co., which recently mobilized 1,000 mentors in 10 cities. If you want to get involved in the HOSTS program, either as an individual or as a business partner, two routes are available:

- Visit the HOSTS site on the World Wide Web (at www.hostscorp.com); it shows all the locations where HOSTS is active.
- Inform your local school district of your interest in participating in HOSTS. Many times, Woolery says, district officials think it will be difficult to recruit mentors,

"but what we're finding is the opposite."

Other ways that small businesses can contribute to their communities' well-being are explored in *Be a Global Force of One! ... In Your Hometown*, by John T. Boal.

The book is available for \$14.95 plus \$4.25 first-class postage from Wescom Graphics, Inc., 2807 W. Magnolia Blvd., Burbank, Calif. 91505. For credit-card orders, call (818) 954-9549, Ext. 21. It is also available through on-line booksellers www.amazon.com, www.bookzone.com, and www.barnesandnoble.com, and by special order through bookstores.

TRAVEL

Ideas For Making The Most Of Time On The Road

In a recent survey of extended-stay business travelers by Residence Inn by Marriott, a division of Marriott International, more than 70 percent of the 1,250 respondents said they felt "productive" or "refreshed" at the office after returning from a long business trip, and more than 53 percent said they felt "refreshed" at home, too.

Almost all respondents said they enjoyed having a little time to themselves while traveling—but they felt guilty about it.

They shouldn't feel that way, though, says Stephen R. Covey, author of *The 7 Habits of Highly Effective People*. An extended business trip is "a rare opportunity

to regain perspective and be more effective," he says. At Marriott's request, Covey came up with ways for business travelers to enjoy their personal time while on extended trips. Among his suggestions:

- Take a book you've wanted to read.
- Be a tourist: Take a carriage ride through an old downtown, sample local foods, buy a disposable camera and take photos, buy a souvenir for yourself.
- Start a personal journal.
- Sketch plans for forthcoming special occasions such as anniversaries, family reunions, and New Year's Eve.

"When you are away from the normal home and office world for more than just a few days," Covey advises, "make the most of your unplanned 'escape' time."

NB TIP

Recruiting Disabled Employees

Employers who want to tap the talents of employees with disabilities have a new resource: the 1999 Workforce Recruitment Database. It contains profiles of more than 1,000 job candidates with disabilities who are college students or recent graduates. The database, on CD-ROM, is free to businesses on request; there is no obligation to interview or hire people in the database.

The database was compiled by the President's Committee on Employment of People with Disabilities and the U.S. Defense Department.

To obtain a copy, fax a request on company letterhead to the attention of "WRP Manager" at (202) 376-6878.



Embracing Speed

By Dale D. Buss

Drew Santin is a slave to a relentless clock that ticks faster every day. His company, Santin Engineering Inc., makes quick prototypes for manufacturers who want to see how their newest products will look, feel, and perform—and they want to know now, not tomorrow.

Compounding the pressure is the fact that Santin's biggest markets—computer-component manufacturers and makers of clothing accessories and costume jewelry—are among the most fickle of any, so his customers count on him to help them cope with their own ever-accelerating customer demands for quick turnaround.

"I'm dealing with an industry, in PC components, where the two-year time frame for

developing a new product, which was the case not long ago, now has become six months or less," says Santin, president and second-generation owner of the \$4 million company, based in Peabody, Mass.

"And in some cases, we have to be able to help our customers turn around in a window that may be as short as a month," Santin says. "The fashion industry is the same way: They can see things get knocked off by competitors even before they go to market. So our ability to get a customized solution in front of the customer is crucial. The pressure is constant to reduce their time frames and to help them get a per-

forming product in the shortest possible period of time."

But Santin isn't just a glutton for punishment. Instead of carrying around the need for speed like an albatross, he and his 60 employees are embracing it—and making Santin Engineering a speed merchant. The company routinely works nights and weekends to help customers trim precious hours and days out of the development process.

Santin cross-trains its employees to ensure maximum flexibility for customers. Engineers can produce quick plastic representations of production components on the spot—even while a meeting with a client is taking place. And in bidding for

The competitive battle in the new economy will go not necessarily to the strongest or even the shrewdest but very possibly to the swiftest.

new business, the company accelerates the process by offering potential new customers upfront ideas for re-jiggering a product or a specification—expert advice that it dispenses free.

Operating In 'Real Time'

Speed and time compression have become the most valuable currencies of the new economy. In a marketplace that wants more faster every day, the battle more often than not is going to the swiftest competitor, not necessarily to the biggest, strongest, or even the shrewdest.

And the most telling differentiator in business today has become how close a company can come to operating in "real time"—a state that is characterized by the "shortest possible lapse between idea and action, between initiation and result," says Regis McKenna, chairman of the McKenna Group, a marketing consultancy in Palo Alto, Calif.

"A sense of time speeded up has become pervasive as we close out the century," says McKenna, author of *Real Time: Preparing for the Age of the Never Satisfied Customer* (Harvard Business School Press, \$12.95).

"Our appetite for speed is insatiable," McKenna says. "Those of us in business must keep reminding ourselves that this supercharged world is our marketplace, and the consumer is coming to expect and demand immediate satisfaction."

Roger Herman, a business futurist and head of Herman Associates Inc., a consultancy in Greensboro, N.C., notes that "the whole society has seen an increase in the velocity of change and in the velocity of life overall, to the point that the old, slow ways of doing things just don't work anymore."

"As a business owner, you simply can't be competitive if a client or customer wants an answer and a competitor can deliver it in four minutes—and you can only

mail it or fax it and have it there in a few hours or a couple of days."

An Expanding Online Milieu

The rise of the Internet is the most obvious manifestation of an economy and a culture that have become obsessed with speed. The Internet is an awesome and increasingly pervasive technology that seems to bring the entire world to one's desktop instantaneously and to gratify within seconds any burning query, idle curiosity, or materialistic inkling.

But the expanding online milieu really is just the most recent manifestation of a progression of trends over the past few decades that has brought both businesses and consumers to the point of conviction that time is not only money—it's everything.

Technologies ranging from PCs to television to automated teller machines to one-hour photo processing have intensified our expectations about acceptable time frames for seeing results.

The explosion of information—and the telecommunications capabilities for transmitting it—also have contributed. So have the rising demands of time-starved dual-career families, who 30 years ago began putting a premium on speed and haven't stopped rewarding the companies that satisfy this imperative.

And the steady globalization of life, led by the internationalization of

business, has transformed the daily clock into a blur that no longer seems to allow pauses.

"It isn't just the Net that is making the difference here, in reality or in perceptions," says James Schrager, a professor of entrepreneurship and strategy at the University of Chicago Graduate School of Business and head of Great Lakes Group, a consulting firm in South Bend, Ind. "It's just one thing. What's really at work is the tremendous power of innovation in goods and services that has taken over the whole economy."

So, while Santin understands that he is in the speed business as much as he's in

The time frame for developing new products in the computer-component industry has shrunk to six months or less, putting pressure on Santin Engineering Inc.—and its owner and president, Drew Santin—to make prototypes as quickly as possible.

PHOTO: RICHARD HOWARD



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the prototyping business, he's not alone by any means: More and more small-business owners of all stripes, from retailers to manufacturers to providers of professional services, are understanding that time increasingly is of the essence no matter what their company does.

They're learning that they now must make everything about their business move faster, often not just incrementally but in extraordinary ways.

They're seeing that the premium on speed takes in not only obvious functions such as distribution and staff training but also areas where care and deliberation traditionally have been rewarded, ranging from employee recruitment to setting strategy.

Robert Jacobs, a partner in 5 Oceans Inc., a management consultancy in Chelsea, Mich., and the author of *Real Time Strategic Change*, (Berrett-Koehler, \$29.95), says: "There's still value in planning, but forget about the five-year plan anymore. With the rate of change going on in the marketplace today, it needs to be supplemented with another belief: The future is today, so be there now."

Seizing The Future

That was the fruitful approach taken by Sonya Lin Thesing and her brother, Wayne, who are partners in Red Planet, a Columbus, Ohio-based mail-order provider of golf equipment and clothing to the quickly maturing Generation X population. Red Planet has decisively harnessed the power of speed in its recent diversification into clothing.

The Lins' father was a distributor of Taiwanese-made golf clubs and golf components, so they know the links business well.

Despite the boom in golfing in America over the past decade or so, Thesing describes the industry as stubbornly drab, where new-product excitement seems to have come down to large-headed metal drivers and to new core material for balls.

But while building Wayne's mail-order club-manufacturing business over the past few years, the siblings began to discern a new market opening up among their peers under 30, who were helping to drag golf out of country-club cloisters and into the public domain.

These "alternative" golfers wanted clothes that would express their approach to the game, a look they weren't finding in Polo shirts and beltless slacks.

"Things had been the same for so long, but it seemed like the golf-clothing industry was about to burst" in a positive way last summer, recalls Thesing, 28.

"We already knew how to make golf clubs; we already knew how to do mail-order," she says. "So we were confident we could do something with our idea"—to cre-

by November the catalog was in the mail.

It didn't take long before Wayne Lin was proven right about the value of speed in Red Planet's new undertaking, because very early this year a new magazine, *Schwing*, debuted to cater to the very same Gen X market of golfers.

Because Red Planet already had become



PHOTO: GIM CALLAWAY

Moving quickly to home in on a fast-emerging market of twentysomethings, Sonya Lin Thesing of Red Planet—a mail-order provider of golf equipment—helped diversify the firm into clothing that appeals to Generation Xers; with Thesing is product specialist Mark Masters.

ate and market alternative clothing.

"Yet we were nervous about whether we were ready to take on this whole new consumer base," Thesing continues. "Then Wayne started pushing, saying that we had to do something now before someone else did it. If not, he thought that we

a presence in that genre, Thesing says, it was approached by the founders of *Schwing* for advice, and the magazine gave Red Planet considerable editorial coverage as well as red-carpet treatment as an advertiser.

Since then, a new World Wide Web site devoted to "alternative" golf also has featured Red Planet prominently. "None of this would have happened if we hadn't moved fast once we were convinced we could do it," says Thesing, who golfs herself when she has time.

Instant Response

Another way that small companies are responding to the demand for speed is by making it the core of their business. Pirtek USA LLC, for example, is a Rockledge, Fla.-based firm that has become the master U.S. franchise holder for an Australia-based company that provides mobile repair service for hydraulic hoses.

Pirtek has cornered the market with its ability to have a mobile unit and well-trained repair personnel at a site fast.

To Pirtek's clients, time is money in a huge way. Typically, a call might come from an airline that has a jet out of service because of a broken hose. Or it might be a

"Turnaround time is just extremely important to our customers these days. ... Everything is like Armageddon to people: It's got to be there, it's got to get out; they need it for a sales meeting or a national convention. It's just the cost of keeping up with what our clients are demanding."

—Irwin Brody, President, Globe Diecutting Products

would totally miss out."

So the pair threw together a booth in time for the mammoth Professional Golfers Association trade show in Florida last August. They gave a handful of would-be vendors they met at the show just five days to get clothing samples to Red Planet. They decided in just three days which lines to carry in their catalog.

The next day, the company's advertising agency took pictures of the samples and started writing copy. Within two weeks, Red Planet had a proof of the catalog, and

public utility with a street-digging unit that blows a hose and is paying a crew of a half-dozen workers \$14 an hour apiece to stand around and do nothing until the repair is made.

Plastic-injection-molding plants hire Pirtek to replace all the hoses on a production line as long as it can be done quickly, over a weekend, without disrupting operations. Or the client might be an excavation company billing at \$500 an hour for the services of a piece of mammoth earth-moving equipment.

"We may get a call from someone operating a \$3 million crane that blows a \$200 hose, and if it's in one of our franchise areas, we can have them up and running within 10 minutes often, and our average is about an hour," says E. Morgan Arundel, president and co-owner of Pirtek USA. "That's versus a cost of maybe \$2,000 to them if, as has been the traditional practice, it takes a couple of days to send out for a part and get it replaced."

Pirtek is being rewarded for its speed-consciousness with rapid growth. The company's Chicago franchise, for example, now has a truck stationed permanently at busy O'Hare Airport. Arundel has six franchisees in major U.S. metropolitan markets, and he expects to double that number this year.

A 'Pit Crew' For Marketers

Susan and Jeff Multz not only have embraced speed as an important competitive differentiator but have fully overhauled the way they market their 13-person, Atlanta-based company, Emerging Market Technologies Inc. The company provides sales-and-marketing automation systems to big companies such as cruise lines and major accounting firms.

The Multzses call their staff a "pit crew for high-performance marketing teams." Susan, who is president, uses as her title on business cards "Pit Crew Chief"; husband Jeff, the CEO, is the "Pit Crew Strategist."

"What we do requires less explaining now," says Susan, "because people understand race cars and how important the pit crew is to winning the race. It creates a pictorial understanding that we were lacking previously and gives clients something that they can touch, taste, and feel."

Of course, the Multzses also take care to back up their image with performance. While Susan says that competitors often require six months to implement a system for a large client, "our mandate is that we'll do it in 45 days or less." And staffers must respond to any sales lead—via the Internet, fax, or phone—within an hour of receiving it.

"We're becoming a model for the value of the speed enhancement of the products and services we're offering, in a way," Jeff says. "Our clients are just in awe of how fast we operate."

Following are some key tactics that small-business owners and their advisers are using to approach the challenge of cranking up the clock at their companies and joining the real-time revolution in the economy.

Jump—or you may be pushed.

Often, the extra speed required to take your firm to the next level impinges uncomfortably on your own decision-making.

Planning can be a crucial strength of some small businesses, and resources usually are too precious to waste on a hasty,

years ago you could have talked about a five-year planning horizon for a small business, but right now, to try to guess what things are going to be like then, forget it.

"If you're going to creatively envision how things will look, be proactive, with the understanding that you're trying to predict a moving target. That helps you focus more on the present."

Accelerate your timetables.

The practical result of developing the mental discipline of a speed merchant is that you'll soon be telescoping timetables everywhere you can—and reaping opportunities because of it.

Consider the results achieved by three companies that took such initiative:

■ Gary Reichling is president of a family-owned business in Dallas that produces glue-removing fluid. After trying a number of sales-expanding tactics that proved fruitless, including infomercials and focusing on small retail accounts, Reichling decided suddenly in the second quarter of 1997 to pursue large retailers.

That risked the very future of Doumar Products because the company was caught in a cash-flow crunch, and a \$250,000 investment was needed to gear up the company for high-volume production. But Reichling firmly believed the gamble was worth taking.

Yet he knew he had to pull this off fast. So, in a matter of just a few weeks, he and Doumar's half-dozen employees obtained higher-capacity bottle molds and fillers, new

labeling machinery, stouter packaging, a state-of-the-art computer system, a bigger warehouse, more assembly space, a more sophisticated phone network, and different distributors and vendors. "It was a very stressful time," recalls Reichling, 37.

But the bet on speed paid off: Staples Inc. and other big retail accounts did, indeed, sign on as customers. Sales of UnDo this year are expected to approach \$4 million, after \$2 million last year and just \$750,000 in 1997.

And now the kingpin of mass merchan-



PHOTO: GISELE ESCARDA—BLACK STAR

Potential competition motivated Steve Sponder to dramatically accelerate the expansion of his company, BizProLink Network, which produces Internet sites for a variety of business audiences.

impulsive move that's likely to turn bad. But the pace of change in your marketplace can sometimes demand rapid decision-making—or you'll be left out as competitors pass you by. So you must be ready to move at any time with gambits that may be huge and strategic for your company.

"Planning-time horizons are much shorter now," says Teresa Covin, chairwoman of the entrepreneurship and management department at Kennesaw State University in Kennesaw, Ga. "Maybe 10

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disers has come around: Wal-Mart Stores Inc. has begun carrying UnDo.

■ For Steve Sponder, the motivation to bring the future forward was competition. BizProLink Network, based in Boca Raton, Fla., is an Internet start-up that produces Web sites for a variety of "vertical" business audiences in fields such as food service, architecture, and accounting.

Sponder was planning a major expansion of the company over the course of this year by rolling out such "portals" for 16 new industry genres. But late last year, when Sponder heard that some of the large general-interest portals were planning to expand into vertical Web sites, he made the dramatic decision to condense a year's worth of expansion efforts into 45 days.

"Even our yearlong schedule was going to be a huge undertaking, but we compressed our entire 1999 product rollout to occur in January," he says. The company's staff of 10 worked days, nights, and weekends, each of them putting in a minimum 12-hour stint; Sponder even worked Christmas Day.

"But we were able to keep people going because they knew we had a real shot at explosive growth"—and perhaps stock options to boot, since BizProLink plans to go public.

The dramatic acceleration of the rollout seems to have worked: The new sites, including one for woodworkers and another for insurance agents, are steadily building traffic. And perhaps best of all, other major portals seem to be letting small players such as BizProLink have the niche to itself, at least for now.

■ DPI Business Information Systems Inc. has been an information-technology consultancy since it was founded in 1991. But now co-founder Jeff Livingston is pouring his time into a major U-turn for the Hunt Valley, Md.-based company: providing more than just advice.

DPI has obtained venture-capital backing to wire hotels with high-speed Internet access. The company had \$7.2 million in revenues last year, but Livingston expects the new venture to reap at least \$100 million in revenues within the next year.

"This is not the kind of thing where you can take your time," Livingston says. "It's a race for market share: We're not the only ones trying to do this. The others have inferior approaches, but that doesn't

matter because they can still shut us out if they're faster.

"So it's all-hands-on-deck at this company, on this single front right now. And it's to the possible detriment of other things that we do. As CEO, I'm the one who's got to decide that juggling."

Spend money to cut time.

It often takes a major investment to move faster for your customers, but you've got to be ready to consider it—even

Cultivate a culture of speed.

Since it's people who ultimately experience how your business compresses time, you need to make an obsession with alacrity part of the company culture.

For example, at the Woodbridge, N.J., operations of Payroll Transfers Holding Corp., an employee-leasing company, co-founder Steve Rosenthal invested more than \$200,000 in developing a proprietary software package called Clientell. Its sole purpose is to help the company's 275 em-



PHOTO: GJOE STEWARDSON

A race-car theme tells clients something about the way Atlanta firm Emerging Market Technologies operates, say Susan Multz, standing, the company's president, and CEO Jeff Multz, right; with them are two members of their "pit crew," Laura E. Mayers and Piper L. Cohn.

"If it takes a traditional recruiter two or three weeks to reach someone that I can reach by phone within 48 hours, it helps my customers work faster."

—Ben Slick, President, PeopleScope

if adding people, hours, or equipment to do so is counterintuitive to how you've been trying to keep your business lean and mean.

For example, Globe Diecutting Products Inc. of Metuchen, N.J., a printing-services company with about 90 employees, has taken steps to maintain its ability to turn things around quickly for customers. The company runs a third work turn during the graveyard shift with a skeleton staff, allows clients to pick up or drop things off until midnight, and maintains a fleet of delivery trucks.

"Turnaround time is just extremely important to our customers these days," says Irwin Brody, president and co-owner of the \$7 million firm. "That's just the way it is. Everything is like Armageddon to people: It's got to be there, it's got to get out; they need it for a sales meeting or a national convention.

"It's just the cost of keeping up with what our clients are demanding."

employees track activities with the company's 1,500 clients and to resolve any difficulties within 24 hours.

About 20 percent of most staffers' annual bonuses is tied to the performance of an individual or a group, according to client responses in a quarterly survey.

For even smaller companies such as golf-products firm Red Planet, one key to speed and responsiveness is cross-training. Each of the company's five employees, says partner Thesing, can do most of what each of the others does.

"Everyone knows how to take an order or answer a customer-service question or pack a box or place an electronic order, and most of us know how to build a golf club," says Thesing, who expects revenues of nearly \$1 million this year.

Heed the yellow lights.

Nevertheless, there are limits to how high the speed of business can get.

One obstacle arises simply from human limitations. Just as miniaturization of many electronic devices doesn't make sense below the threshold at which fingertips can punch buttons on a keyboard, it's counterproductive to expect human productivity to improve as quickly as technological efficiency.

"We're probably reaching some limits in terms of how much we can speed up

human beings," says Sandy Weinberg, vice president of entrepreneurship at Muhlenberg College in Allentown, Pa.

Some owners also are understanding that differently "wired" individuals have varying capacities to handle speed-based demands.

Jon Shapiro, for example, is seeking to move online much of the sales activity of his Dallas-based manufacturer of Internet servers for telecommunications companies, Alliance Systems Inc.

"We need to move as fast as possible," says the founder and owner of the \$25 million company. "I have this feeling that everyone on Earth is building commerce sites and that he who gets there first wins. And I'm driving my people nuts with urgency in this area."

"I separated a group of some of the best and brightest people and have put them into a separate business unit to accomplish this, with incentives like cash and stock options [in the not-yet-public company] based on their speed and performance."

Yet Shapiro had to be careful to pick only employees who could "handle this sense of urgency—people who can't stand it when they don't see things getting done. Many people can't work that way; they need rules and procedures and a controlled pace."

Develop a time-compression niche.

A growing number of savvy entrepreneurs, of course, are seeing how all of the economy is running on a faster clock and are fashioning new businesses—or refining their current enterprises—to get a foothold in the trend.

An example is Plan Express, a Memphis, Tenn., company that reproduces and distributes construction plans for retail stores, using state-of-the-art equipment and its location next to Federal Express' delivery hub to guarantee customers quick turnaround.

"For a contractor, a misbid can be fatal," says Jim Angelici, co-owner of Plan Express. "But the extra day or two we gain for them can mean the difference between a job won or lost. Another 48 hours can allow them to locate the most-competitive subcontractors so they can lower their bid, for example."

Embrace the Internet.

The Internet, of course, already has become synonymous with the breakneck pace of the new economy.

But there's a big difference between recognizing the power of the Internet and properly harnessing it.

For some companies, such as established

retailers, effective use of the Internet may indeed be as simple as posting a Web site to sell online what they already sell in the store.

The challenge can be much more complex for other small companies, but those that take the time, trouble, and expense to fathom the Internet can reap huge rewards.

PeopleScape Inc.'s whole business, for example, "is based on the speed of hiring." The San Jose, Calif., company—in the heart of frenetic Silicon Valley—is an information-technology personnel-search firm, "and if I can do anything to collapse the cycle time between understanding a need and hiring the person for that, I have a superior competitive advantage," says Ben Slick, president and co-founder.

So PeopleScape has woven a very tightly integrated network of databases and e-mail communications that it uses to reach "passive job seekers" with "compelling" job opportunities—and to get responses from 30 to 50 percent of its targets within 48 hours of starting a search for a client.

"If it takes a traditional recruiter two or

business," says the 40-year-old Slick, whose company employs about 50 people.

Don't overlook other technologies.

Because time compression boils down to technological advances more than anything else, owners are using a variety of approaches beyond the Internet.

Robert Bellagamba, owner of Concorde Limousine Inc. in Freehold, N.J., is considering moving processing of customers' credit-card payments right into the driver's seat via wireless communications, shortening by two or three days the time it takes for funds to arrive at Concorde. The company's current payment-processing system relies on office personnel billing customers after the company's services are complete.

Bellagamba has also installed a satellite dish that feeds his dispatchers information directly from the Federal Aviation Administration about the status of flights arriving at Newark International Airport. Using that information, he can make real-time decisions on where and when to position drivers at terminals.

"We can accommodate a lot of last-minute requests this way," he says. "There's so much competition that if you don't take care of clients as quickly and as thoroughly as they want, they'll change on you on the spur of the moment."

In many ways, technology is the loose cannon of the time-compression trend in business: It can help small-business owners satisfy customers, but speed also can kill customer relationships. That's why small companies must not be satisfied with simply quickening their pace but must take care to ensure that their value extends way beyond dispatch.

Santin Engineering, for example, is concerned that further improvements in the digital technologies underlying its business soon will make it possible for whole new categories of competitors—and even customer manufacturers themselves—to handle their own stereolithography, essentially three-dimensional "printing."

So Santin is focused continually on new ways to make his company invaluable to clients.

"If we can bring the engineering talent to the process to make it

right the first time and build a better product and be creative about using our tools, we can build things not only quickly but effectively," Santin says. "And that's where our premium needs to be: giving the right answers, quickly."



PHOTO: STOOD ANDERSON—BLACK STAR

Time is money to clients of Pirtek USA LLC—which provides mobile repair service for hydraulic hoses—so the company puts a premium on getting personnel to a site in a hurry, says E. Morgan Arundel, president and co-owner.

three weeks to reach someone that I can reach by phone within 48 hours, it helps my customers work faster, and it allows me to collect my fees more quickly so I can increase my volume and scale in what is classically thought of as a nonscaleable

Small Business Financial Adviser

Tracking what's on the shelves; insuring against Y2K losses; protecting the firm's reputation; balancing the market's ups and downs.

The Benefits Of Smart Inventory Management

By J. Tol Broome Jr.

To many small-business owners, inventory is simply the stuff they keep on the shelves to generate sales. Despite the investment required to maintain appropriate levels of inventory, they put little effort into monitoring it. But ignorance about inventory can be costly.

Just ask Todd Heim, owner of Future Cure Inc., a company in North Olmsted, Ohio, that manufactures spray booths used for painting cars. The typical spray booth has more than 300 parts, so Heim has learned how to manage his inventory effectively.

"Inventory control impacts cash flow directly. That's how important it is," says Heim. Mismanage inventory, and you risk having your checking account hit zero, he warns.

Here are five suggestions to help entrepreneurs manage their inventory effectively:

Computerize your records. Some businesses still use a manual tracking system when they should be using an electronic system.

The cost of automating has dropped dramatically in recent years as computer hardware and software prices have fallen. A good PC-based system containing all the hardware and software you'll need can be purchased for as little as \$10,000. If you don't have that amount handy, banks and leasing companies do, and they offer a number of cost-effective financing options.

Entrepreneurs who aren't proficient computer users can use training packages to get up to speed; such packages are available from most computer vendors.

J. Tol Broome Jr., a credit-risk manager for a Greensboro, N.C., bank, writes on financial matters.

Heim installed a state-of-the-art automated financial system two years ago. Included in the package was a detailed inventory-tracking component. Using it, he cut the company's level of inventory

cally running around looking for a part for the booth," Heim says.

Track inventory turnover. A good automated system will help immensely in calculating inventory turnovers. Total inventory turnover is stated either in number of turnovers per year or number of days of inventory on hand.

For instance, a turnover rate of 12 times per year can also be stated as 30 days of inventory on hand. You should track this number and compare it against industry averages, which can be obtained from trade groups. If, for instance, your inventory turns 12 times per year and the industry average is 15, your operations may need improvement.

It's also important to track turnover for individual items. Jim Laws, owner of two Video Review stores in Greensboro, N.C., installed an automated system that computes inventory turnover for each video in stock.

"We compare turns from week to week, or even day to day," he says. "We will often cut loose excess copies if they aren't renting and sell them as previously viewed on a retail basis in the store."

Heim's computer system also tracks the turns of each item in his inventory. "Before we put in our automated system, we would find some parts with a year's worth on hand, while some would be completely out when we needed them," he says. "It was very costly, but we can now manage individual items effectively."

Balance data and educated guesswork. Even for a business that tracks turnovers with an automated system, finding the balance between too much and too little inventory can be an inexact science. This is particularly true for retailers and wholesalers expected to provide their customers with "just-in-time" inventory levels—supplying the customers with their inventory needs no sooner or later than the goods are needed for manufacturing or distribution.

Laws, who has been in the video business for 15 years, says this guessing game



PHOTO: OMBKE STEINBERG—BLACK STAR

Better inventory tracking has improved operations at Todd Heim's firm, which makes automobile-painting booths.

by 25 percent in just a few months.

The new system produced other benefits: Parts are nearly always on hand when needed. The need for costly overnight shipping has dropped. The amount of unused or unneeded inventory has been reduced dramatically. And employees spend less time scrambling to find parts.

"We no longer have the truck ready to leave in 20 minutes with someone franti-

SMALL BUSINESS FINANCIAL ADVISER

is one of the biggest challenges he faces. "We are trying to anticipate demand," he notes. "We are making decisions each week on each movie trying to guess its potential popularity. Then we have the added challenge of guessing how many copies our competitors will stock."

To try to find the right balance, he relies on his tracking of past trends for similar movies, as well as input from a buying service. "If we spend too little, we won't have enough to meet demand, and our customers will go somewhere else," says Laws. "But if we spend too much, it costs us money. Finding the right balance is tough but essential in our business."

Create an ordering system. Many small-business owners make the mistake of letting just about anyone order inventory, but it's a specialized task that requires dedicated attention to detail.

Laws says he orders all inventory himself to ensure uniformity. Heim delegates this responsibility to one person only.

"If we had four or five people ordering inventory, it just wouldn't work," Heim explains. "Our inventory person knows the

policies of the vendors, their personalities, lead times, and the costs. He also has built relationships with our vendors that enable him to ask for special favors when we get in a pinch."

Besides the specialization involved, say experts in the field, an efficient ordering system typically involves certain practices, such as never overordering just to save a few dollars, using just-in-time ordering whenever possible, shopping for suppliers periodically, and asking for discounts.

Hold employees accountable for inventory management. Accountability is critical in managing inventory. In a manufacturing business, this means tracking parts used in assembling products. In a wholesale or retail company, it means holding key employees accountable for inventory ordering levels, for shipping errors,

and for any acceptance of defective items.

Let your employees know that you regularly review inventory-control reports and that they will be held accountable. Says

Heim: "Our computer gives us all the inventory information we need, but a business still needs a competent employee putting that information to use and being held accountable for doing it right."

"A business still needs a competent employee ... being held accountable for doing it right."

—Todd Heim, Future Cure Inc.

If you think of your inventory as dollar bills on

your shelves, you'll have a greater appreciation for effective inventory management.

Laws came to understand this concept well as his video business grew. "We started small," he says. "Now we order the same amount of inventory in one week as we had in our store's inventory when we first opened. Inventory management is one of the most critical aspects of my business." ■

LIABILITY PROTECTION

Insurance Coverage For Y2K Losses

Insurance companies can provide coverage for business losses caused by storms, fires, and other such calamities. But they're not so sure about offering protection against damage attributable to computer breakdowns caused by year 2000 problems.

"Insurers are notifying small-business customers that they're not covered for any losses caused by Y2K problems," says Patricia Bennett, a small-business contingency-planning consultant based in Cherry Hill, N.J. But if you're willing to pay a higher premium, she adds, "you can buy tightly written Y2K liability coverage."

Vic Sanders, senior vice president of the Rust Insurance Agency in Washington, D.C., says his agency offers specialty liability coverage on a selective basis. For small companies that are thoroughly prepared for Y2K, a year's coverage can cost about \$2,500. But for companies that are not well-prepared, the premium can be \$10,000 or more. Coverage does not include business interruptions attributable to Y2K problems.

To qualify for Y2K coverage, Sanders says, you have to jump

through a lot of hoops. "Acceptance," he says, "is based on an underwriter's review of a very detailed, five-to-10-page application form."

Such applications typically ask what percentage of your total operations involve activities such as data processing, custom-software development, and support services.



ILLUSTRATION: GEORGIA LEIGH MCCONALD

At Media Professional Insurance Co. in Kansas City, Mo., companies that satisfy the underwriters can purchase an "errors-and-omissions" policy written for service companies such as direct-mailers, funeral directors, travel agencies, brokers, public-relations firms, and research laboratories.

The errors-and-omissions policy may be adapted "to include such firms as those in the computer business whose errors might have created Y2K problems for, say, a grocery store's inventory and cashier system that crashes," says Chad Melton, a senior vice president at Media Professional. The company also insures businesses whose Y2K remediation work for others might not measure up on Jan. 1.

Media Professional and other insurers are quick to note that they are not selling policies that cover Y2K liability exclusively. Instead, they are including some Y2K coverage in packages that insure against more-traditional types of risks.

Another type of Y2K insurance—separate from general business coverage—is designed to protect directors and officers against claims alleging failure to achieve or properly disclose Y2K compliance. One such policy is D&O Gold from the American International Group, based in New York City. Applicants must fill out a 10-page form on potential Y2K exposure and compliance efforts.

—Peter Weaver

The author is a free-lance business writer in Bethesda, Md.

INSURANCE

Policies That Protect A Company's Good Name

A restaurant, supermarket, caterer, food processor, or supplier can be driven out of business if it's caught in a wave of lawsuits and bad publicity arising from an outbreak of food-borne illness.

"Usually everybody up and down the food chain is sued"—starting with suits against restaurants or retailers by those who became ill, says Greg Benefield, assistant vice president of the Willis Corroon insurance brokerage in Nashville, Tenn. "Anyone who is involved at any point in

ing other restaurants or stores in the chain. It may take months or even years to regain the lost business, experts say.

"If you supply a contaminated product to a name-brand restaurant chain or franchise and there is a food-borne-illness outbreak, your customer will expect you to pay for their loss of reputation and the resulting loss of income," says John Cavanaugh, director of new-product development for the Chubb Group of Insurance Companies in Warren, N.J.

any damage settlements or judgments.

"In addition to paying for the legal costs," says Smith of Long John Silver's, "it can give suppliers a marketing edge by showing potential major customers that someone else has put their money on the line and has given a sort of stamp of approval."

John Keane, president of Capital Risks Concepts, an insurance brokerage in White Plains, N.Y., says: "This insurance can also strengthen a small company's financial picture. When you apply for a loan, your bank will know that you're covered and [that you] won't go bankrupt if you're caught in a wave of lawsuits."

Most reputational-damage coverage is being purchased by food companies—large and small—for peace of mind. "Quite honestly," says Willis Corroon's Benefield, "this is sleep-well insurance for business owners who have all their money tied up in their food enterprises. They know if disaster strikes, they could be wiped out."

Factors In Setting A Premium

Knowing what is and isn't covered is always important in buying insurance. "You should employ due diligence in checking out any reputational-damage insurance before you buy, to make sure the agent explains how the coverage works and what's included and what's excluded," says Robert Massi, a plaintiff's attorney in Las Vegas. He has represented clients who sued a fast-food chain and its suppliers following illnesses traced to tainted hamburger meat.

The premium depends on the company's sales volume, the nature of its customers and suppliers, and its quality controls.

Chubb's Cavanaugh gives the following example of a company that annually sells \$10 million worth of fruit filler for pies, some of which go to a regional restaurant chain.

"The restaurants account for \$5 million in sales," he says, "and the other \$5 million goes to hospitals and schools, which don't have the same reputational risk as a well-known company."

"The supplier has a good product-recall setup and a good quality-control program. With this sales mix, we would charge around 5 to 10 cents for each \$1,000 in sales."

"The annual cost would come to around \$1,000 for \$1 million in coverage."

For more information on reputational-damage insurance, check with your insurance agent.

—Peter Weaver



Careful food preparation is not a restaurant chain's only safeguard against lawsuits arising from food-borne illnesses. Insurance for a company's reputation can also help.

the process is going to be named in the lawsuit regardless of the accuracy of the claim." Lending support to that view are lawyers and others familiar with such litigation.

Well-known companies that fall victim to tainted food often sue not only for actual losses but also for loss of income caused by damage to their reputation.

Possible harm to the company's reputation "is one of our most serious risks," says Nancy Smith, director of risk management for Long John Silver's Restaurants, Inc. The quick-service seafood chain, based in Lexington, Ky., has never been embroiled in a tainted-food problem.

The risk for restaurant chains, however, is that when one store is determined to be the culprit in an outbreak of illness caused by tainted food, people often stop patroniz-

To address such problems, Chubb recently introduced a product called reputational-damage liability insurance, which can be added to a company's umbrella liability coverage as an endorsement (insurers' term for a provision added to a policy).

"It protects us from a potentially very serious risk that would otherwise be unrecoverable," says Joel Kolen, president of Empress International, Ltd., a frozen-seafood supplier in Port Washington, N.Y. Kolen, whose company recently signed up for reputational-damage coverage, says, "The real issue for us is the cost of defending yourself in a lawsuit whether you are at fault or not."

More Than Legal Costs

The new reputational-damage endorsement pays for all legal expenses on top of

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Female Premiums

Age	10 YEAR	15 YEAR	20 YEAR	25 YEAR	30 YEAR
35	\$ 120	\$ 135	\$ 165	\$ 235	\$ 235
40	\$ 153	\$ 188	\$ 200	\$ 298	\$ 300
45	\$ 200	\$ 210	\$ 265	\$ 400	\$ 415
50	\$ 260	\$ 313	\$ 400	\$ 578	\$ 608
55	\$ 385	\$ 440	\$ 600	\$ 956	\$ 1,065
60	\$ 535	\$ 690	\$ 865	\$ 3,140	\$ 3,140
65	\$ 883	\$ 1,015	\$ 1,733	\$ 4,100	\$ 4,100
70	\$1,430	\$1,637	\$3,035	\$5,270	\$7,220
75	\$2,797	\$4,770	\$6,560	\$10,370	\$10,370

Male Premiums

Age	10 YEAR	15 YEAR	20 YEAR	25 YEAR	30 YEAR
35	\$ 138	\$ 163	\$ 198	\$ 280	\$ 300
40	\$ 185	\$ 210	\$ 260	\$ 385	\$ 383
45	\$ 260	\$ 335	\$ 395	\$ 548	\$ 585
50	\$ 378	\$ 500	\$ 600	\$ 863	\$ 915
55	\$ 568	\$ 758	\$ 865	\$ 1,805	\$ 2,810
60	\$ 908	\$1,130	\$1,365	\$4,100	\$4,100
65	\$1,530	\$1,845	\$2,923	\$5,270	\$5,270
70	\$2,665	\$3,539	\$5,405	\$7,370	\$10,070
75	\$4,415	\$7,848	\$9,650	\$13,640	\$13,640

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INVESTING

Market-Neutral Funds May Offer Solace If Stocks Tank

By Randy Myers

Market-neutral mutual funds seemed like a great idea. Based on a novel investment strategy that had produced steady profits for institutional investors over the past decade, they were marketed as a way for ordinary investors to earn money whether the stock market was going up or down.

The reality has been quite different. The few market-neutral funds introduced over the past 18 months have gotten off to a fitful start, often losing money while the stock market has roared to new highs.

"We were obviously disappointed by our first-year results, and in fact we're not off to a good start this year, either," acknowledges Will Jump, director of market-neutral strategies for AXA Rosenberg Investment Management, which launched its Barr Rosenberg Market Neutral Fund in December 1997. "Nonetheless, we remain confident that our strategy is sound and that it will add value going forward."

It would be tempting to dismiss Jump's optimism if it weren't for the fact that AXA has been successful in its market-neutral strategy for most of the past decade. During the nine years ended Dec. 31, 1998, for example, its market-neutral accounts for institutional investors posted gains in 32 out of 36 quarters. The Standard & Poor's 500-stock index, by comparison, turned a profit in 29 quarters.

Going Up ... And Down

That sort of consistency is one of the great attractions of market-neutral funds. It's achieved through a strategy that involves simultaneously buying stocks expected to go up in price and "selling short" those expected to go down.

In a short sale, a fund borrows stock from a broker and immediately sells it at the prevailing market price. Later, it buys back those shares—hopefully at a lower price—and returns them to the broker. The fund pockets the difference between the higher price at which it sold and the lower price at which it covered its position.

This long-short construct is designed to insulate a market-neutral fund from whipsaw movements in the stock market. If the market goes up, the fund can expect to lose money on its short positions overall but earn money on its long positions. If the market goes down, the fund can ex-

Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.

Market-Neutral Returns

The performance of seven market-neutral mutual funds in the past two quarters; a phone number for each fund is provided for further information.

	4th Quarter 1998	1st Quarter 1999	
Barr Rosenberg Market Neutral Fund	-3.2%	-6.7%	1-800-447-3332
Barr Rosenberg Select Sectors M.N. Fund	*	-1.5	1-800-447-3332
Boston Partners Market Neutral Fund	*	-5.1	1-800-311-9783
Dreyfus Premier Market Neutral Fund	+0.5	-9.0	1-888-338-8084
Phoenix-Euclid Market Neutral Fund	+1.36	-7.1	1-800-444-2706
Puget Sound Market Neutral Fund	+2.3	-1.7	1-877-777-8438
Warburg Pincus Long-Short M.N. Fund	-1.7	+1.1	1-800-927-2874

* Fund began operation after the start of the fourth quarter.

SOURCES: INDIVIDUAL FUND COMPANIES

pect to lose money on its long positions but make money on its short positions.

In the meantime, the fund will enjoy a steady stream of interest income on the proceeds of its short sales until those positions are closed out.

A Different Driving Force

Unfortunately for the Barr Rosenberg fund, its stock-selection strategy has not served it very well to date.

The new fund performed admirably during last year's volatile third quarter, when it earned 1.8 percent while the S&P 500 was falling 10 percent (and the average domestic stock fund was losing 15 percent). But for all of 1998 the fund lost 1.1 percent, compared with a gain of 28.7 percent for the S&P 500.

The Barr Rosenberg fund uses proprietary computer models to select stocks that appear to be undervalued for its long positions and to find those that appear to be overvalued for its short positions. But over the past 18 months, the stock market has been driven by growth stocks, not by value plays.

"We've actually been able to add value [generate positive returns] in growth environments in the past, but this time the disparity has been too extreme," says Jump.

Another market-neutral fund with a value-oriented stock-selection process, the Phoenix-Euclid Market Neutral Fund, was introduced last spring by Zweig Securities Corp. It hasn't fared any better. It lost 4.1 percent in last year's third quarter, and in the first quarter of this year it lost 7.1 percent. (The Barr Rosenberg fund lost 6.7 percent in the first quarter.)

To be sure, neither the Barr Rosenberg

fund nor the Phoenix-Euclid fund seeks to outperform the S&P 500. Instead, their goal is to consistently earn a few percentage points more than 90-day U.S. Treasury bills, a common proxy for cash. For example, AXA Rosenberg's institutional market-neutral accounts earned an average of 14.2 percent annually over the past five years, compared with 5.1 percent for 90-day Treasury bills.

Making The Right Bets

If you think a market-neutral fund might be right for you despite this lackluster start, read its prospectus to make sure that the manager's stock-selection philosophy dovetails with your own.

As the Barr Rosenberg example illustrates, the stock-selection prowess of a market-neutral fund manager is integral to the fund's success. After all, the manager of an ordinary mutual fund with, say, \$1 billion in assets must bet right on \$1 billion worth of long positions to make money for the fund's investors.

The manager of a \$1 billion market-neutral fund must be right not only on \$1 billion of long investments but also on the \$1 billion worth of short investments—for which no money was paid out upfront. In that respect, he or she is taking on twice the risk of the conventional fund manager.

The roaring bull market in growth stocks is working against market-neutral mutual funds. But one day that bull will finally slow down, and when it does, the market-neutral strategy may yet shine. At the very least, its history of success in the institutional market makes these funds worth watching a bit longer.

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Meeting Challenges The Blue Chip Way

By Michael Barrier

The national designees in an annual program honoring exceptional small firms dealt with hazards ranging from floods to nagging self-doubt.

This year's six national honorees in the Blue Chip Enterprise Initiative have overcome both external and internal challenges.

External challenges can be easy to spot. A flood inundates a company's facilities for months; a fire destroys most of a manufacturing plant. But, usually, success depends not just on the nature of such a challenge but on the attitudes of the people responding to it. If you meet that internal challenge, you don't just rebuild your damaged plant—you rebuild your company, too, so that it's better than before.

Sometimes, the primary challenge is internal. Are you starting a bank to serve a minority community that has historically suffered from discrimination? Maybe what you really need is not so much a desire to fight discrimination as a state of mind that sees opportunity in an underserved market.

Honoring companies that have surmounted both internal and external challenges is the purpose of the Blue Chip Enterprise Initiative, co-sponsored annually by life insurance company MassMutual—The Blue Chip Company, the U.S. Chamber of Commerce, and *Nation's Business*. More than 180 companies were chosen this year as Blue Chip Enterprises, and six particularly outstanding firms were named national designees.

The national designees are: Findett Corp., St. Charles, Mo.; East Coast Petroleum Corp., North Quincy, Mass.; Toledo Metal Spinning Co., Toledo, Ohio; United Bank of Philadelphia; B&J Machine & Tool, Inc., Sparks, Nev.; and Old Biscayne Designs, Americus, Ga.

Here are their stories, in the order in which the honorees were interviewed.

Findett Corp.

For Findett Corp. in St. Charles, Mo., the challenge was stark: keep a business afloat while most of its assets are under 12 feet of water.

In 1993, Findett was a tiny (five employees) but successful custom manufacturer of small-volume chemicals for big chemical companies. Its plant in St. Charles was 1½ miles in each direction from the Mississippi and Missouri Rivers,

water, though. The products it made for its big customers were often critically important to their end users.

"Approximately two-thirds of the aircraft in the world rely on a product that we were making then" for Monsanto Co.,

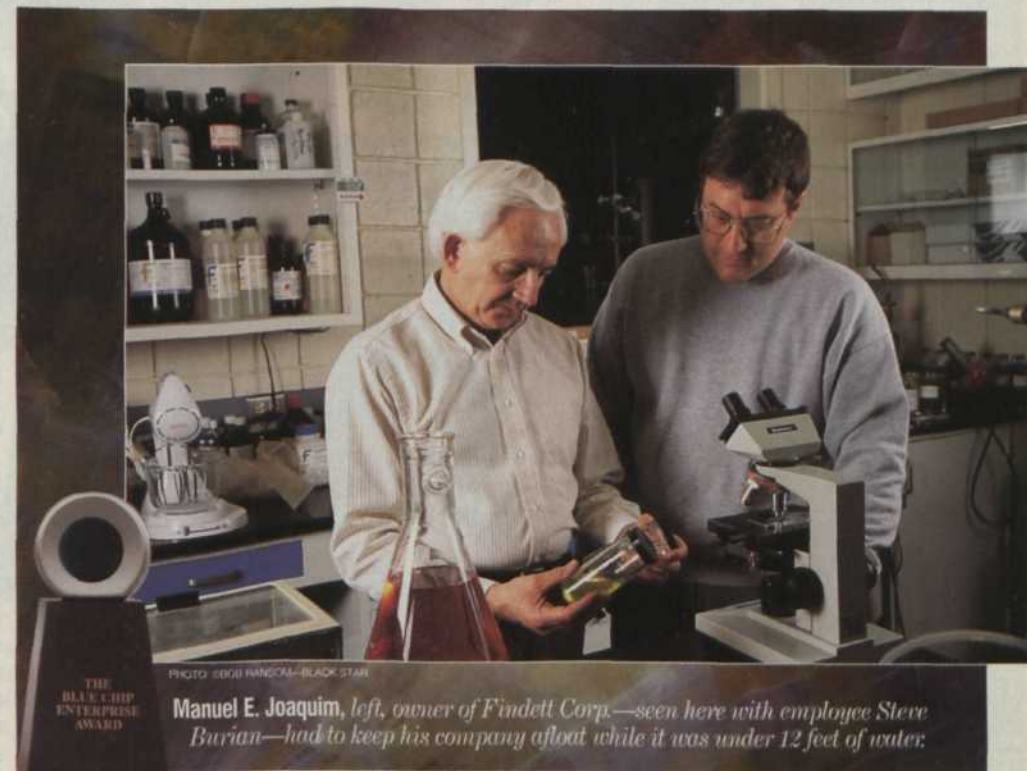


PHOTO ©BOB HANCOCK-BLACK STAR

Manuel E. Joaquim, left, owner of Findett Corp.—seen here with employee Steve Burian—had to keep his company afloat while it was under 12 feet of water.

on a flood plain protected by agricultural levees.

That year the St. Louis area was hit by the kind of flood that is expected to occur only every 500 years or so. Findett had been flooded before in its 31 years in business, but never remotely on a scale like that of 1993.

"We had approximately 24 hours to get everything out of here that we could," says Manuel E. Joaquim, then one of three owners of the firm and now its sole owner. "We ended up having to buy a boat in order to get to the property."

The flood occurred in July. It was months before the flood waters had receded enough for what Joaquim recalls as a "massive cleanup job" to begin. It took a year for Findett to recover fully.

Findett couldn't simply wait out the

Joaquim says. "The products we make are generally not made by anybody else in the world. They're small-volume, niche products made with complex technology.

"If we shut down," he continues, "we're going to shut down a good portion of industry in the world. That's a heavy burden, one that our employees are very cognizant of."

Throughout the flood, Findett's employees improvised ways to keep serving their customers. Providing that critically important chemical for aircraft, for instance, involved rowing out to an all-but-submerged storage tank, attaching a pipe to the top of the tank, and running 800 feet of pipe underwater until it stretched to dry land.

When a customer couldn't wait, "we met all their needs, whether it was by piping product out or trucking it out or making it

ENTERPRISE

somewhere else" by subcontracting the work, Joaquim says.

The flood's effects did not end when the water receded and the plant was cleaned up. Because sales were curtailed during the flood, "it drained our treasury down to zero," Joaquim says. The company had only minimal insurance, and its out-of-pocket costs probably exceeded \$250,000. A strong relationship with the company's bank was critical to weathering the storm.

The flood turned out to be not just an isolated crisis, though, but the occasion for a decisive—and positive—turn in the company's fortunes.

Joaquim, who is now 58, had bought a one-third interest in Findett in 1990, when he decided he was ready for a career change after years of working for much larger companies. He headed Uniroyal Chemical Corp.'s specialty chemical business, seeking out small companies to

santo that it had custom-manufactured for that company.

These products are lubricants for extreme environments (heat, corrosion, radiation, and so on) "where other things just don't work," Joaquim says.

The only thing that limits the products' use is their high cost; ordinary lubricants are commodity materials, whereas the Findett lubricants are very expensive by comparison. "You can't make this product for \$4 a gallon," Joaquim says of one Findett lubricant.

Joaquim sees a potential market arising for one of Findett's products as an automobile transmission fluid, thanks to auto-industry research in improved transmissions. He is exploring joint ventures in that area, in which some other company would take on the marketing while Findett concentrated on manufacturing.

certainly a disaster, but it created the basis for positive change. We built a new company around the flood."

And speaking of floods—there hasn't been another one since 1993.

East Coast Petroleum

When Loretta T. DeGrazia started her own heating-oil company, East Coast Petroleum Corp., in the Boston area in 1985, she was entering a business arena that had not been hospitable to women.

"It's a very male-dominated, macho industry," says Michael Lemelin, East Coast Petroleum's general manager for the past two years. "They can't fathom that some woman would have the talent or the drive to make it in this industry."

DeGrazia, now 43, had been in sales for another heating-oil firm before she started her own, and she sold East Coast Petroleum's oil furiously. "Going out to the streets, and meeting people, and being out in the community" is how she describes her efforts to get her company off the ground. "We were giving three and five gallons free if they bought 100 gallons from us, to get in the door, to get their first delivery."

East Coast Petroleum, based in North Quincy, Mass., is now a small but established player in the Boston heating-oil market. It sells about 4 million gallons a year to about 2,400 customers, primarily residences and small retail stores, and it has won prized contracts with the state and Boston city governments.

DeGrazia is now setting her sights on federal contracts and on breaking free of the seasonal pattern that heating oil imposes.

"We're trying more and more to do diesel fuel work because it's a year-round sale," says Bob Lewis, East Coast Petroleum's sales manager.

The company now employs between 17 and 20 people in the heating season, including five part-time drivers. The total was higher a few years ago, though. East Coast Petroleum employed 24 at its peak—which was, ironically, the time when the company's very existence was in jeopardy.

DeGrazia was, she says, an "absentee owner" during much of 1995, when her mother was suffering a fatal illness. Shortly after she lost her mother, her longest-serving employee, a driver who she says "was like a son to me," was shot and killed.

Distracted as she was, she relied heavily on a manager she had recently hired who



PHOTO: RICHARD HOWARD

Loretta T. DeGrazia fought back when her Boston-area fuel-oil company was threatened by employee and supplier defections and an environmental violation.

which work could be outsourced.

In the wake of the flood, Findett's founder and the other owner decided to leave the business. In early 1994, Joaquim and his co-owners split the company's assets, which by then included a plant in New Jersey and a joint venture in Russia. Joaquim retained Findett itself, and he set about transforming the company into a vehicle for growth.

For one thing, Findett shifted its focus away from custom manufacturing and toward the ownership and manufacture of its own products. Over two to three years, Findett acquired four products from Mon-

He also has entrusted more responsibility for the running of the plant to his employees than the company's founder did. "I wouldn't say the employees were stifled" before the flood, Joaquim says, "but they didn't have the free rein that they have today," after demonstrating during the flood how capable and dedicated they were.

Now, Joaquim says, "I go out looking for the opportunities," while entrusting the running of the plant to plant manager Jerry Exner and the other employees.

Without the stimulus to change that the flood provided, Joaquim believes, "we'd probably be on the ropes. The flood was

had extensive experience in the oil industry. She didn't check his references, though, and she found out too late, she says, that "I was deceived on his résumé."

Her new manager generated sales, and "all of that revenue producing is very blinding," DeGrazia says. At the end of 1995 the additional revenue wasn't producing additional profits. Her manager assured her that he was spending money to make money, she says, and that the additional employees he was hiring for heating, ventilation, and air-conditioning work were necessary to develop the market.

"You hear what you want to hear, as an owner," DeGrazia says. In 1996, though, "I began to realize that I was getting complaints" about service. Technicians weren't showing up or weren't doing the work they were billing for. She began to question what the manager was doing, and that led to his protests that she wasn't letting him do his job. "He was the king of manipulation," she says.

She says she also "started to see a difference in the actions of the employees themselves—not really responding to me." As she learned later, most of her employees, including the manager, were planning to jump to another heating-oil company.

Then the Environmental Protection Agency came calling: East Coast Petroleum had delivered heating oil with impermissible sulfur content to the city of Cambridge, in violation of the Clean Air Act.

The manager had already given notice when the EPA learned of East Coast Petroleum's violation; most other members of the staff had already left. "Our largest supplier got wind that we were in trouble, we were putting the wrong product in, and through a fax immediately cut off our supply," DeGrazia says.

"I felt that we weren't going to make it," she says. "This is my child," she says of her company, "and I was watching my child die in front of me."

With East Coast Petroleum at rock-bottom, DeGrazia fought back. "I sent letters out to vendors and customers," she says, "apologizing for inadequacies in our service and our deliveries."

She hired a consultant who had heard about her difficulties and called to offer to help. He took over the administrative side—there were perhaps eight employees

left of the original 24—after telling her, she recalls, to "go out in the street and start selling."

"I didn't trust anybody at the time," DeGrazia says, "but I agreed to it, and we started to build." She went to her suppli-

status in the industry. "Because we're small," Bob Lewis says, "we can be far more responsive to problems than big, clumsy companies," and, he says, government officials appreciate that.

DeGrazia acknowledges she was fearful



PHOTO © SANTA FABIO—BLACK STAR

Craig Fankhauser, left, and his brother Eric, surrounded here by hoppers their company makes, worked to serve customers in the wake of a disastrous fire.

ers and told them, "I'm not going anywhere. I'm going to do what I have to do" to restore the company's financial health.

"Our reputation was so tarnished," DeGrazia says, that East Coast Petroleum lost its line of credit. To come up with the money to pay the company's bills, she and her father both sold their homes and DeGrazia "went through all my credit cards," she says.

Gradually the company turned around. The EPA wanted to fine East Coast Petroleum \$90,000 but eventually accepted a fine of \$17,000. Only the one supplier cut her off. "We built stronger relationships with our other suppliers," she says. "They had confidence in me, and my ability and integrity, but what was going on made them concerned." Last year a small bank in Quincy extended credit.

DeGrazia stepped up her civic involvement, donating oil, services, and time to worthy causes. "I was letting everyone know that I was still around," she says, "and I was coming back."

Now, Lemelin says, "the benefits are building on themselves day after day" as the company regains financial health. The state and city contracts are the clearest signs of East Coast Petroleum's restored

of letting go, but she is trying to leave the everyday details to her staff as she concentrates on winning new contracts. "This is a team that can be trusted," she says.

Toledo Metal Spinning

When Eric and Craig Fankhauser, as vice presidents of Toledo Metal Spinning Co. (TMS), reviewed insurance coverage every year with their father, Ken, the family-owned firm's president, they "always talked about valuations," Eric recalls. In deciding on relatively low coverage, they assumed that any fire could be contained to a small area because their plant was mostly brick and metal.

"We never thought it would happen to us," Eric says. "But it happened to us."

"It" was a disastrous fire that ravaged much of TMS's plant in February 1998. Not all of their loss was covered by insurance, and if the entire plant had been destroyed, "we would have been way underinsured," Eric says. Two fire doors were all that prevented the blaze from completely destroying the plant.

TMS had plenty of other urgent problems. The company's customer database was on a backup computer tape in a fire-proof safe, Eric says, "but I didn't know

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until after the fire that [a fireproof safe] will not protect magnetic data."

The tape was sent to England so the data could be salvaged by a company there. In the meantime, TMS had to rely on a four-month-old backup tape that Craig had kept in his briefcase.

The Fankhausers "set up a war room" with the September backup tape as a database, Craig says, "and started plugging away at it." They purchased computers on Friday—two days after the fire—picked them up on Saturday, and were back online Monday.

"Eighty percent of our business is repeat business," Craig says, "so we had shop routings and process flow and tooling and telephone numbers and contacts [on the backup tape]. The majority of our information was there." They were able to contact all their biggest customers using information from the old tape.

Those customers had turned to TMS for parts for missiles, passenger jets, and military aircraft, among other things. The company's forte is "basically, anything that can be formed out of metal," Eric says, and so it has a "very, very diverse" customer base.

"We diversified our product line on purpose," he says, so that the company would not be dependent on one industry. In addition, he says, "we get into more intricate, closer-tolerance parts than the majority of metal-spinning firms."

(Spinning, the process from which the company takes its name, involves rotating a metal disc at high speed and pushing it down gradually over a form called a mandrel. TMS sells off the shelf a whole line of stainless-steel, cone-shaped hoppers used for countless purposes—from releasing fruit into yogurt to processing pills.

By the time of the fire, Ken Fankhauser was less active in the company, although he retains the title of president. "My brother and I have pretty much been running the company for the last 10 years," Eric says. Craig, 40, handles sales and information systems, and Eric, 37, the financial side and quality control.

The brothers "didn't sit down and write a plan" to deal with the disaster, Eric says. "But we talked about it, and basically we said that if we were going to keep going, our No. 1 priority has got to be to keep our customers."

Most of those customers responded very sympathetically, he says. "Very, very few pulled out." The company was able to satisfy some of their needs for a while from

its own inventory of hoppers. In addition, Craig says, "we had blanket orders from one of our bigger customers, and we had parts that were completed and ready to ship to them. That really helped us get through the first couple of months."

Farming out their work to other companies, in Toledo and elsewhere, was difficult, in part because "we're extremely picky on quality," Eric says.

Mainly, TMS concentrated on getting back into production itself as quickly as

the worst, and sticking that in the production schedule."

TMS's 1998 sales, despite the fire, were 83 percent of 1997's, and the Fankhauser brothers hope that 1999's sales will rise to 1997's level. Rather than simply reproducing the company as it existed before the fire, though, they're trying to improve it.

"We're redesigning our whole production system," Eric says, by adopting the principles of "lean manufacturing"—the Japanese system, known as *kaizen*, that empha-



PHOTO: KAL DEMARCO JR.—BLACK STAR

Emma C. Chappell saw an opportunity to set up a bank that could make loans successfully to Philadelphia's minority community.



possible. "The fire was on a Wednesday night," Eric says. "We were back in primitive production on Friday, when we took a lathe from polishing and converted it to a turning lathe" to complete a job for a customer that otherwise would have lost \$50,000 for every day the parts were delayed.

They got their first replacement machine, a metal spinning lathe, the following Wednesday; its German manufacturer was shipping it to another customer, which agreed to let TMS buy it instead.

Some customers didn't get deliveries for several months. "It got pretty hairy in June or July, when there were still some customers we hadn't delivered to," Eric says. "If I had to draw a stress curve, it would peak about the middle of July," just before the larger of two replacement buildings was ready (a smaller building had gone up by April).

"It was management by crisis," Eric says, trying to figure out "who needs parts

sizes flexibility—with the goal of providing much more rapid turnaround.

"There'll be a lot of cross-training," Eric says. "There'll be a lot more responsibility placed on the employee to know different skills. There'll be a lot more interaction between the employees."

Turnover at TMS is extremely low, Eric says, except in entry positions. Some employees are from two generations in the same family. Before the fire, he says, "people were used to doing things in a certain way. The fire forced everybody to accept change, to see what change could do for us."

The fire "was sure hard on everybody," he says, "but I think in the long run we'll probably be better off."

United Bank

Emma C. Chappell's first job after high school in Philadelphia was as a bank clerk. "I was the first minority in the bank," she says (she is African American). Her work involved making photographic

copies of the checks and deposit slips that passed through the bank.

As dull as such work might sound, Chappell wasn't bored. She was fascinated by banking, she says, "and I would hurry up and do my work so I could stand behind the tellers and learn what they were doing." In about six months, she was a teller herself.

The fascination never left her. "What I liked most about banking," she says, "was that I got to work with people." She went on to get a master's degree in banking, and she eventually became the bank's vice president in charge of loans.

Chappell set her sights higher. "I did think that one day I would like to be president of a bank," she says. She was close to being hired as president of two banks in other states, but then she joined the 1984 presidential campaign of civil-rights advocate the Rev. Jesse Jackson, as his campaign treasurer. It was after traveling around the country with Jackson, she says, that her career plans really came into focus. "I decided that I didn't like politics, that I really am a banker," she says.

A group of lawyers, black and white, approached her about heading a new bank to serve minorities. It was going to be started with money invested by insurance companies, but the nosedive in stock prices in October 1987 put an end to that plan.

Chappell was convinced, though, "that I could put a bank together." While still in her job as a bank vice president—and with her employer's approval—she set about raising the money to start a bank, this time from the minority community itself.

"We have got to stop expecting somebody else to do this for us," she told minority-group members. "I don't want to hear on talk radio or read in our newspapers that the broader community has dumped on us, when in fact we're dumping on ourselves."

Her listeners responded. "The community lined up and bought stock in this bank," she says. "Many of them didn't care if I gave them a prospectus. [They said], 'You just go to it, girl.'" More than 200 churches got involved in raising money for the bank, on what they called "Black Bank Sunday." "I've never eaten so many chicken dinners in my life as I did that Sunday," she says.

Chappell raised \$3 million by 1989, but state regulators—for reasons Chappell regards as suspect—insisted that she provide \$5 million in capital. "It was the

worst experience I've ever gone through," she says, "because it was like I had gone back on my word" to the small investors who had put their trust in her.

But when she explained to the bank's investors—some of whom had raised money to buy shares through bake sales and car washes—what had happened, she says, "there was a groundswell of support that I think was really what made the bank a reality."

Chappell left her job in 1990 to work full

says. What United Bank is about, instead, is taking advantage of opportunities in the minority community that other banks have not recognized.

"We're building houses," she continues. "We're providing mortgages to first-time home buyers. We're providing a lot of home-equity loans for people who want to fix up their



PHOTO: EIPA MARK GOSTIN

Jay Thiessens, right, seen here with employee Pat Doyle, built a successful machine shop while concealing what he calls his "little secret"—illiteracy.

time on setting up the new bank—and to demonstrate her own commitment to it.

Convinced now of the bank's viability, large investors came forward to provide more than enough money to meet the regulators' requirements. United Bank of Philadelphia, with \$6 million in capital, finally opened in March 1992, on Market Street near Independence Hall—and hundreds of small shareholders, black and white, lined up outside to celebrate the debut of their bank.

Seven years later, United Bank, with Chappell as its chairman, president, and CEO, has six branches and \$122 million in deposits, from what she calls a "very mixed" customer base that is heavily black and Hispanic. "Our deposits are typically small," she says. The bank has 3,000 shareholders, each with a minimum of \$500 invested. They, too, are predominantly black and Hispanic.

Chappell emphasizes that there is nothing racially exclusionary about her bank. "The only color we see here is green," she

houses and ultimately their neighborhoods. We try to invest particularly in the neighborhoods around our banks."

It's because United Bank is so deeply embedded in the communities it serves, she says, that it can spot opportunities where other banks might see unacceptable risks. "Other banks cannot service these communities as cost-effectively as we can," she says. "We have firsthand knowledge of the community. Our children go to school with their kids, we go to church with them."

Loan defaults are almost nonexistent, Chappell says—"less than 1 percent of the actual money that was lent," which totals so far around \$70 million.

"The big banks"—United Bank now has "strategic alliances" with several—"see us as more or less a feeder bank for them," she says, "because we bring in individuals and businesses, we develop them, and then, when they outgrow us, they're likely candidates for the larger banks."

Chappell hopes United will become a \$500 million bank—"we're a real bank

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now, but we want to be a larger player"—but not a \$1 billion bank. If the bank becomes that large, she says, it will lose the sort of community connection represented by a woman who called her from the hairdresser's to complain that one branch didn't have any deposit slips.

"Everything we do here is geared to that market, as opposed to being a program or an element in a big bank," Chappell says. "That's why we exist."

B&J Machine & Tool

For nearly 50 years, since he was in the second grade, Jay Thiessens has carried with him what he calls his "little secret." It's not a secret for success. In fact, it's a secret that has often left him feeling stupid and inadequate. But Thiessens has achieved success in spite of it.

"One reason we've been able to grow," he says, "is that we've left the money in the company. We're not real extravagant." When he does "gamble," he says, it's by buying equipment.

After thriving in its early years, B&J fell into a funk in the mid-'80s, when a new buyer for Thiessens' largest customer (which by then represented 95 percent of his revenues) asked for kickbacks. When Thiessens refused, work gradually dried up, employees had to be laid off, and morale plummeted.

Replacing the lost work was difficult. "When you've got to have work," Thiessens says, "people sort of know it"—and so B&J got stuck with difficult and unprofitable jobs. To make matters much worse, the Thiessenses' 22-year-old son was killed in a motorcycle accident.

temptation to sell the business.

As a first step, "people had to get to where they could speak freely, with full comfort, knowing they wouldn't get fired," Thiessens says. "The way I used to manage, if anybody said anything bad about the company, the first statement out of my mouth was 'There's the door.' So I had to do a lot of changing myself."

As soon as the employees realized that "they could come and tell me anything, I was barraged with all these complaints," Thiessens says. "Some of the stuff was not nice. I definitely didn't want to hear it."

After a couple of months, Thiessens started turning the complaints over to committees of employees. Not only did the number of complaints fall off once the employees were given responsibility for solving the problems they complained about, but the employee committees actually found solutions that everyone could buy into.

"My biggest fear was giving up authority, giving up control," Thiessens says. "I think every manager is a control freak. But I actually have more control today, because I know more about what is going on out on the floor. Before, the people were afraid to tell me the truth."

B&J has around 50 employees, a few more at most than when Thiessens adopted the team concept. Sales have risen much more rapidly, from \$2.9 million in 1995 to almost \$5 million last year. B&J has no salespeople; it relies on word of mouth.

Thiessens is about to begin construction of a new plant with three times as much floor space (54,000 square feet) as the present one. "We've grown rapidly, and it's not because we've hired more people," Thiessens says, "but because we've gotten more from them."

The team concept proved itself most spectacularly in 1997, when the plant was hit by a devastating flood; the water rose to 3½ feet inside the building, damaging tools and destroying records. If the flood had occurred three years earlier, Thiessens says, "we'd have probably locked the doors." Instead, employees pitched in and quickly cleaned up the plant. B&J was shipping finished products just four days after the cleanup began.

Despite all the new openness in his company and the benefits from it, Thiessens didn't let any of his employees in on his "little secret": He couldn't read or write. "Looking back," he says, "I think it resulted from



PHOTO: T. MICHAEL KEZA

Nick and Gretchen Gabrielli pulled up stakes and started making furniture in Americus, Ga., after a hurricane devastated Miami.

With his wife, Bonnie, Thiessens, now 55, owns B&J Machine & Tool, Inc., in Sparks, Nev., just east of Reno. B&J machines parts, welds, and does precision sheet-metal work for a base of about 200 customers, including some from the gaming industry. (It makes parts, like coin guides, that go into slot machines.)

The Thiessenses, who grew up in eastern Nevada, married right out of high school. They moved to the Reno area, where Jay found jobs in several machine shops before he and Bonnie started B&J in 1973. Bonnie handles what Thiessens calls "the front side of the business"—finance and administration.

The shady buyer was ultimately fired, and Thiessens got jobs from that company again, but the damage had been done. Morale at B&J was still poor in the early '90s. Thiessens had hired a general manager to run the company under him, but that hadn't worked, either. He had gone through five general managers in seven years.

In 1993, Thiessens attended a seminar on how companies can benefit from relying on employee teams. "I was sick and tired of the fights between the employees and management," he says. He saw in the team concept a way to defuse that conflict before it got so bad that he yielded to the

me being told at a very young age, by a couple of teachers, that I was stupid."

Thiessens somehow managed to get through school, although his grades scraped bottom until his last year in high school, when most of his classes were in the machine shop and auto mechanics. "I excelled at both of those, except for the written exam," he says.

Having grown up with a reading problem, Thiessens says, "I've learned to hide it very, very well. I've had years of practice." If someone handed him a written joke, for example, he'd pretend to read it, then laugh.

In the last few years, Thiessens has finally addressed his reading problem. He went to a doctor who found nothing wrong with him—he was not dyslexic or otherwise handicapped. "The only thing I've got is just this huge mental block," he says. He couldn't shake the tendency to blame his "stupidity," even though, as his wife angrily pointed out, he was smart enough to build a successful business.

Thiessens is now working for a half-hour every evening with a tutor. He has read his first book, and he is working on a second. He finally told his managers, at a retreat last year, about his reading problem, but most of his employees "still don't know," Thiessens says with a grin. "I'm going to have to tell them, real quick!"

Old Biscayne Designs

In some ways, Nick and Gretchen Gabrielli's story is a typical small-business story, but it has more-vivid colors than most. No capital, no help, working at home at night to get a fledgling business off the ground. It almost sounds like the stuff of sitcoms, but "it wasn't funny," Nick says. "It wasn't cute."

And there was something else ... oh, yes, the hurricane.

Nick, 39, is from Argentina, and Gretchen, 38, is from Americus, Ga. They met in Miami, where they were both working at the time—he as a banker and she as a clothing designer—and married in 1990. Since Nick wanted to live in the United States but visit Argentina as often as possible, they went there for three months to see what kind of business might permit him to do that.

"We saw an opportunity in importing antiques into the U.S.," he says—even though they didn't know anything about antiques or importing.

"We could have gone into motorcycles," Nick says. "But once we got into [the furniture business], we knew what we wanted to do in five years."

Says Gretchen: "We very clearly delineated a business plan," with projections of their sales for years into the future, "and we were really close."

They began visiting designer showrooms around the United States, showing pictures of the kinds of antique iron beds they planned to import under the name Old Biscayne Designs. "I cannot sell water in the desert," Nick says, but Gretchen had the right touch, and they sold a few beds. In addition, some of the showrooms "put us in contact with sales representatives," Nick says, and the reps began offering the beds to retailers.

The Gabriellis worked at other jobs at first, running Old Biscayne out of their one-bedroom apartment. Nick painted and did repair work on tugboats while Gretchen continued to design clothing. At night they refinished the imported beds and crated them for shipment. Their apartment neighbors "were not happy," Nick says.

"We were having problems with importing from Argentina," Nick says, and so they decided to start making beds themselves. They began by sharing a shop with a welder while Nick learned from him how to work with metal. "We were both working at our jobs in the morning," Gretchen recalls, "and in the afternoon he was welding and making the beds" while she cast metal parts.

Even in the days when their tiny apartment was crammed with beds, and visitors from Argentina were expressing their dismay, "never did we have the feeling that we were not going to succeed," Nick says.

By 1992, the Gabriellis were in debt and couldn't get bank financing, but revenues were on the way up. Then, in August 1992, Hurricane Andrew devastated southern Florida. It destroyed most of the warehouse that housed their business and others, but miraculously it left most of their equipment and inventory undamaged.

"We realized that if we stayed in there," Nick says, "we were going to be out of business for at least four months." They knew that such a hiatus could be fatal. They found a rental truck—a scarce commodity in the Miami area in the wake of the hurricane—and loaded on it everything from the shop and their apartment.

A little over a week later, they were back in business on Gretchen's parents'

farm in Americus. They had an 800 number by then, and they transferred it to a cellular phone. "Nobody knew that we were in the middle of nowhere, in an old dairy barn," Nick says.

Although Gretchen worked part time outside Old Biscayne at first, by then, Nick says, "we had enough orders where I could have a very low-paid full-time job with the company. From there, we started rolling."

They thought at first that they would be back in Miami in six months or so, but that idea faded as the business grew. They moved out of the dairy barn to larger quarters in April 1993 and hired their

first employee. "Orders kept coming," Nick says. "We constantly introduced new products, new finishes, new designs."

What made the difference, he says, was Gretchen: "She was selling ourselves, the strength of the achievement, that we were going to be there tomorrow."

Old Biscayne Designs will move soon to a 30,000-square-foot building that's under construction. The Gabriellis employ 35 in Georgia and an additional 12 at a separate company in Argentina that casts metal parts for the beds.

They got a Small Business Administration-guaranteed loan two years ago, which allowed them to lease a showroom during the critically important semianual furniture shows at High Point, N.C. At first, "we went into one very small showroom," Nick says. "This year we doubled our space at High Point and introduced a new line."

Even as the company grows, it remains firmly rooted

in the Gabriellis' intimate knowledge of how the beds are made. "We did every single step," Nick says. "When I hire people, I know exactly what they [should be able] to do. The minimum they have to do is half of what I can do."

The Gabriellis' knowledge of the business goes even deeper than that.

In their early days, instead of simply shipping beds to a wholesale customer, they would sometimes deliver the beds themselves to the consumer's house. "We were getting tips," Nick says, from consumers who didn't realize they were giving a few dollars to the beds' manufacturers, rather than the employees of a delivery service. **HB**



"Once we got into [the furniture business], we knew what we wanted to do in five years. ... Never did we have the feeling that we were not going to succeed."

—Nick Gabrielli,
Co-founder,
With Gretchen Gabrielli,
Of Old Biscayne Designs



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Bargains (For Now) In Business Insurance

Underwriters are so eager to get small companies' business that it's a good time to review your firm's coverage—before premium rates move up again.

By Robert L. Jacobson

Talk to representatives of the insurance industry these days and you are likely to be struck by one overriding theme: They want your business. More precisely, they want to insure your business. And they are *very eager*. As a result, competition is keen, prices are low, benefits are substantial, and service is the name of the game.

It is, in short, a buyer's market, and that translates into a special message for small-business owners: This is an excellent time to reassess your company's insurance needs and the kinds of added coverage that may be worth buying.

It's also a good time to shop around, insurance experts say. Independent agents and carriers across the country stand ready to help you evaluate your insurable risks and go over the latest packages of property-casualty protection for small and midsize businesses. (See "A Checklist For Insurance" on Page 33.)

"We're in a unique time," says Charles D. McCabe, president of McCabe Insurance, a small, independent agency in Columbia, Md. "The commercial-insurance business is typically in a soft market and then a hard market in cycles of seven to 10 years. But we've been in a soft cycle for close to 20 years now."

Much of that appears to be a function of the nation's unusually strong economy. McCabe observes that many insurance companies, with good results from their own investments, can show respectable profits "even if they are losing money on the underwriting side."

"It causes them to be very competitive in pricing commercial insurance because they want to get the dollars in so they can invest them," he says.

At the same time, McCabe sees some of the pricing as irresponsible. He tells of an instance in which a major insurer was able to "steal" a competitor's customer by offering a premium that was less than half what the business had been paying—even though the account had recently sustained losses amounting to nearly twice the price of the new policy.

"How could they do this?" McCabe asks with a tinge of anger. Presumably, he says,

Property-casualty insurers are competing heavily in the small-business market.

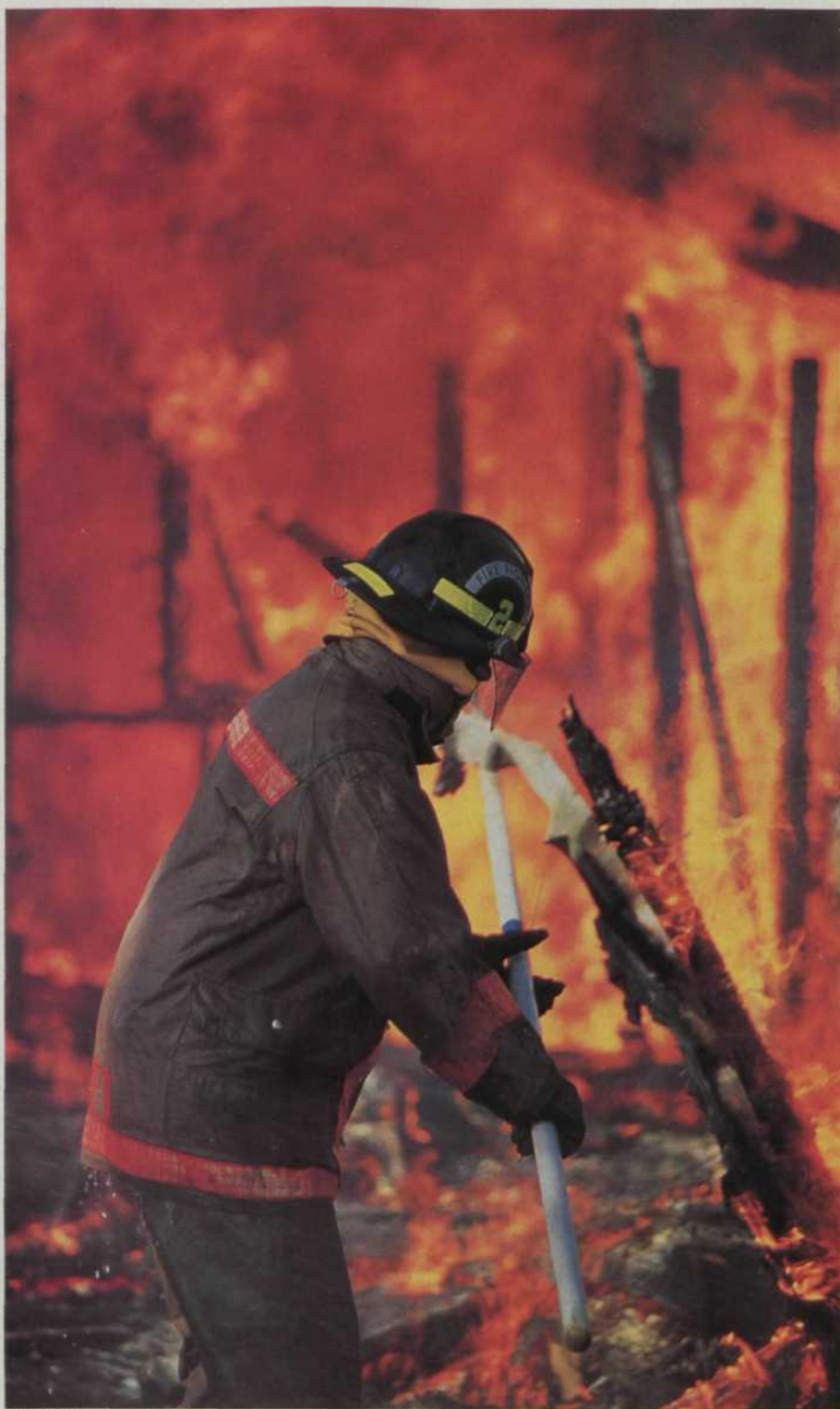


PHOTO: ©BOB LLEWELLYN—UNPHOTO

the newly chosen carrier was counting on minimizing new losses and offsetting the premium reduction with investment gains.

Change May Be Coming

If it all sounds like an opportunity for small businesses to obtain maximum coverage at low prices—and many experts say that is exactly what it is—businesses also need to be on guard. Insurance representatives acknowledge a growing sense within the industry that prices have been too low for too long, and that they could well move up again soon. If the economic boom begins to wane, insurance coverage is almost certain to become more expensive. (Hint: If you delay, that new policy or rider you've been thinking about may no longer be the bargain it is today.)

But for the moment, at least, it's no wonder that property-casualty insurers remain in a highly competitive mode. For one thing, their net income fell by nearly one-sixth in 1998, according to the National Association of Independent Insurers in Des Plaines, Ill., and in the first quarter of 1999 they were rocked by huge disaster claims.

Perhaps more significantly, a recent study for the Independent Insurance Agents of America (IIAA) found what the Alexandria, Va.-based organization termed a "remarkably high" willingness among small businesses to desert their insurers for a lower premium. Jeff Yates, the group's CEO for industry and state relations, says that means agents will need to keep scrambling—with an emphasis on broader service.

"Agents who think they need to only sell traditional property-casualty products are running a very big risk of losing these customers to a competitor," says Yates.

A.M. Best, a company based in Oldwick, N.J., that rates insurers and publishes insurance data, forecasts an enormous consolidation in the industry over the next several years. Best says that as many as one-third of the nation's 1,100 property-casualty groups will bite the dust or be absorbed by stronger companies.

Watching For Danger Signs

But small businesses may need to pay attention to some red flags, too. The same prosperity that has spurred price competition in commercial insurance has tended to put more and more small businesses at risk for losses they haven't anticipated, says Patricia Borowski, vice president for research and technical affairs at the National Association of Professional Insurance Agents, also in Alexandria.

For many small firms, she explains, good times have meant growth and expansion into new areas without adequate attention to insurance needs.

"Because the economy is going well,



"Agents who think they need to only sell traditional property-casualty products are running a very big risk of losing these customers to a competitor."

—Jeff Yates, Independent Insurance Agents of America

people are getting involved in more and more things—and forgetting more and more" about insurance, Borowski says. But business owners "really need to be conscious that every time they take that step [toward expansion], they need to go back to their insurance agent and say, 'Do we need an endorsement?'"

Instead, Borowski says, with companies' activities "running way ahead of their original policies," by the time they discover the gap it may be too late. A case in point is the

growing practice of sending employees abroad for international conferences and on other missions. What are the implications for workers' compensation and product-liability claims? Borowski says that if you aren't sure whether your company is adequately covered for such losses outside the United States, or even outside your own state, you should ask your insurance agent.

Additional Risks

Many small businesses also are increasingly vulnerable to lawsuits over alleged race or age discrimination, sexual harassment, or wrongful termination. Defense costs alone in these cases can be devastating—not to mention adverse judgments, which can put a company out of business.

"Legal fees will kill you just to prove you are innocent," says Sharon Emek, president of Metro Partners, Inc., an insurance-agency group in New York City.

Rob Schueler, employee-practices product manager at Travelers Property Casualty Corp. in Hartford, Conn., puts it this way: "If you're hiring or firing or promoting or not promoting employees, you have an exposure."

Another problem stems from the rapid expansion of home-based businesses. Borowski says the insurance industry itself was slow to respond to the burgeoning growth of this sector of the economy, so it has often been difficult for home-based businesses to obtain appropriate coverage. A new IIAA survey indicates that at least 60 percent of in-home business owners are not adequately insured for business risks.

Suppose, for example, that a room in the business owner's house is being used as an

A Checklist For Insurance

Is your business adequately insured? Consider the following categories of coverage options:

- ☐ Buildings and other structures—both during and after construction
- ☐ Furniture, equipment, and supplies
- ☐ Boilers and other machinery
- ☐ Data-processing equipment and media, including computers
- ☐ Valuable books and documents
- ☐ Business interruption and consequent loss of revenue
- ☐ Inventory
- ☐ Leased equipment
- ☐ Satellite dishes
- ☐ Money and securities
- ☐ Records of accounts receivable
- ☐ Debris removal after a fire or other damage
- ☐ Breakage of windows and plate glass

- ☐ Improvements to the premises
- ☐ Mobile property, such as automobiles, trucks, and construction equipment, with coverage that includes personally owned vehicles used for company business
- ☐ Signs, fences, and other unattached outdoor property
- ☐ Intangible property, such as trademarks and goodwill
- ☐ General liability, including personal injury and slander
- ☐ Workers' compensation, including temporary employees
- ☐ Product liability
- ☐ Errors and omissions, professional liability, malpractice
- ☐ Lawsuits, including discrimination and sexual-harassment cases
- ☐ Retaliation by former employees who were dismissed or laid off

INSURANCE SPECIAL REPORT

office, and the family dog runs in and bites a client on the ankle. Who's the culprit? "Is it the homeowner's Fido or a home-based business pooch?" Borowski asks. The answer can be crucial. The bottom line: Check your policy before the dog bites.

A Cooperative Spirit

Insurance agents, meanwhile, are so hungry for small-business action that they typically are more than happy to respond to inquiries from prospective customers—and to provide guidance on how to improve safety, reduce risks, and supplement coverage.

Agents also are looking aggressively for new ways to appeal to small-business owners. For example, they are trying to package different types of insurance, such as life and health coverage, with property-casualty policies. And they are becoming more sensitive to the cash-flow concerns of small companies by offering to structure premium schedules according to when companies are in the best position to make payments, reports Madelyn Flannagan, the IIAA's director of research and information.

Much insurance advice remains available on a direct one-on-one basis, with individual agents and insurance advisers offering free, no-obligation consultations at your place of business. But at the same time, business owners also can tap an increasingly rich store of insurance information over the Internet.

In addition, advances in technology and computer software are improving insurers' ability to tailor commercial policies to the needs of particular segments of the small-business community, says Ruth Gastel, vice president for issues analysis at the In-

surance Information Institute, a national organization in New York City that is supported by about 275 property-casualty and reinsurance companies.

In the past, she says, property-casualty policies were written primarily for everyday

Owners who expand their firms should "go back to their insurance agent and say, 'Do we need an endorsement?'"

—Patricia Borowski, National Association of Professional Insurance Agents

Main Street companies. Now, however, technology is giving underwriters "greater ability to look at the parameters of the losses of different kinds of businesses" and thus to create policies that are appropriate for specific types of companies.

Patrick J. Kinney, a sales-and-marketing vice president at Travelers Property Casualty, says insurance agents used to try to write distinct policies for each individual business—a demanding and expensive task.

"We were not recognizing the fact that a florist is a florist," he says, and that most

florists have common characteristics, such as a store with a certain square footage, a refrigeration unit, and, of course, flowers. In other words, they all have "exposures that are pretty generic."

With the help of technology, that insight led to "groupable" insurance programs for different types of businesses. Says Kinney: "We write 500,000 accounts a year, and you can't customize every one of them. You have to mass-produce them."

Douglas C. Elliot, senior vice president for select accounts/commercial lines at Travelers, adds that technology has become "a huge part of the equation that has enabled us to provide a much more cost-effective process."

Previously, Elliot notes, the process included faxing a customer's application to an underwriter, who would respond with a quote. If the deal was accepted, the information would be sent to a service center, which eventually would generate a policy. Today, in contrast, a single agent can rate, quote, and issue a policy in 15 minutes from a desktop computer.

Use of the Internet is contributing to the perception of an industry in flux. Not only is there a deluge of information about insurance on the World Wide Web, but some insurers have begun to sell policies electronically. Customer service, meanwhile, is expected to improve markedly as more and more business owners begin tapping the Web for answers to queries about their coverage, claims, and risk management.

Gastel of the Insurance Information Institute says the changes mean that customers will find themselves more and more "in control."

NB

Resources

Electronically and in print, insurance companies, agents, and their organizations across the country provide huge amounts of facts, figures, and advice—much of it free for the asking. Here are a few such resources.

In Print: *The Consumer's Independent Guide To Small Business Insurance*, Independent Insurance Agents of America, 127 S. Peyton St., Alexandria, Va. 22314-2803; 1-800-221-7917. The IIAA is the largest national organization of its kind, representing more than 300,000 independent insurance agents and other agency employees. This 36-page booklet (single copies are free on request) presents nearly

two dozen basic questions and answers about small-business insurance. It includes a glossary of insurance terms and a state-by-state listing of independent-agent groups and their telephone numbers.

A highlight of the national association's World Wide Web site, at www.iiiaa.org, is a comprehensive discussion of the year 2000 problem: "Countdown 2000: You, Your Independent Insurance Agent, and Y2K Compliance." The discussion is supplemented by a list of 10 other sources of information on the Internet.

On The World Wide Web: The Internet is loaded with information about insurance of all kinds. Besides accessing material provided by individual insurance companies, small-business owners may wish to examine Web sites with extensive

links to other useful resources. One such site, provided by Insurance Services Office, Inc., in New York City, includes scores of links on topics ranging from agents' and brokers' organizations to catastrophes, claims, and risk management (go to www.iso.com/docs/links.htm).

Another site, courtesy of The Rough Notes Co. in Carmel, Ind., contains a searchable list of hundreds of links to insurance providers for specific types of businesses (go to www.roughnotes.com).

And for a comprehensive list of several hundred carriers of property-casualty insurance, visit a site maintained by G. Barry Klein, vice president of sales for Silver Plume, a company in Boulder, Colo., that distributes insurance manuals in electronic form (go to www.ultimateinsurancelinks.com).

FINANCE

Loans That Come Full Circle

By Sharon Nelton

One of the best-kept secrets about small-business financing in the United States may be organizations known as revolving loan funds.

These community-based entities use public and private dollars to meet social and economic goals by making loans to small businesses and to non-profit and community projects at below-market interest rates.

As the money is paid back, it is used to make other loans to other businesses or nonprofits.

In other words, the original grant or loan to the revolving fund is used over and over.

"I think that's a wise use of funds. You seed something once and that seed continues to work for you," says Linda Salmonson, administrator of a three-year-old revolving fund called Rural Electric Economic Development, Inc., (REED) in Madison, S.D. The \$10 million fund has made about 50 loans, 24 of them to small businesses.

Early last year, Arlis Hanson, owner of Ag Services, Inc., a soybean-processing company in Huffton, S.D., obtained a loan of \$150,000 from REED. The package included an additional \$50,000 from a revolving loan fund run by the Northeast Council of Governments, based in Aberdeen, S.D.

The funds enabled Ag Services to purchase equipment and inventory to further develop the production of soybean oil.

A Variety Of Purposes

Throughout the United States there are more than 7,500 revolving loan funds—or RLFs—controlling assets estimated at more than \$8 billion, according to a study conducted last year by the Washington, D.C.-based Corporation for Enterprise Development. In a survey of RLFs in seven states, the organization found that the median RLF loan size was \$40,000, the median interest rate was 6 percent, and the median repayment term was five years.

Generally, each RLF has its own purpose and targets its loans to businesses and pro-

jects that help fulfill its mission. One fund might focus on serving microbusinesses, for example, while another might seek to revitalize a distressed downtown area.

"Our purpose is to provide financing and help leverage private investment in small communities and rural areas," says Salmon-

Community-based revolving loan funds offer help to small companies and non-profit organizations.

son. REED was initiated by seven nonprofit rural electric cooperatives in 1996. It now has 17 member cooperatives in South Dakota and Minnesota and is administered by the East River Electric Power Cooperative, Inc., which is based in Madison and sells electricity wholesale to the member co-ops.



PHOTO: JOHN BORGE

In South Dakota, Linda Salmonson runs a Madison-based revolving fund called Rural Electric Economic Development, which provided a \$150,000 loan for equipment purchases to Arlis Hanson, owner of Ag Services, a soybean-processing company in Huffton.

son. "We want to participate in projects that create economic growth, lead to permanent jobs in rural areas, improve rural development capacity and infrastructure, and fill a gap, to some extent, that may not be being filled by private lending."

And the founders hope that the economic growth will lead to increased electricity sales.

The Way It Works

REED uses a two-tier approval system, which "is a little unusual for loan funds," says Salmonson. A loan must first be approved by the business owner's local electric cooperative and then by the REED board of directors. The local cooperative must agree to guarantee the loan.

"We try to always partner with banks

This story completes the series on ways for small companies to locate the financing they need to run their businesses.

FINANCE

on a loan," says Salmonson. "If a bank declines to participate, we may still consider a loan." In some instances, such as the Ag Services deal, a nonbank partner may be found.

REED's smallest loan is \$11,500; its biggest, approved recently, is in the amount of \$750,000, for an ethanol-production plant.

"Our interest rates generally fall between 5 percent and 7 percent," says Salmonson. (Hanson says Ag Services pays 5 percent on its 10-year REED loan.)

And like a bank, REED requires borrowers to provide collateral, such as land, buildings, equipment, or accounts receivable. "We want our borrowers to understand that they need to pay us back in the same manner they would pay the bank back," she says.

Among REED's several sources of funding are grants and loans from various U.S. Department of Agriculture programs; loans from the National Rural Utilities Cooperative Finance Corp., a private lender to co-ops headquartered in Herndon, Va.; and money from the general funds of REED's member co-ops to meet the matching requirements of one of the USDA programs.

Ag Services owner Arlis Hanson and his then-controller, Roger Rozell, first heard about the REED program from Dennis Hagny, general manager of Northern Electric Cooperative in Bath, S.D., who encouraged them to apply for a loan.

Hagny brought in the Northeast Council of Governments, which agreed to be a partner in the package.

Hagny, who is also on the REED board of directors, says he was intrigued by the idea that Ag Services was a "model" for value-added agricultural processing that could be done on a family farm. Hagny also knew that in addition to processing soybeans from the Hanson family farm, Ag Services would purchase soybeans from neighboring farmers—a benefit to the local economy.

Generally, according to Salmonson, it takes up to 90 days to go through the process of applying for and receiving a REED loan, although in some instances it can be done in as little as 60 days.

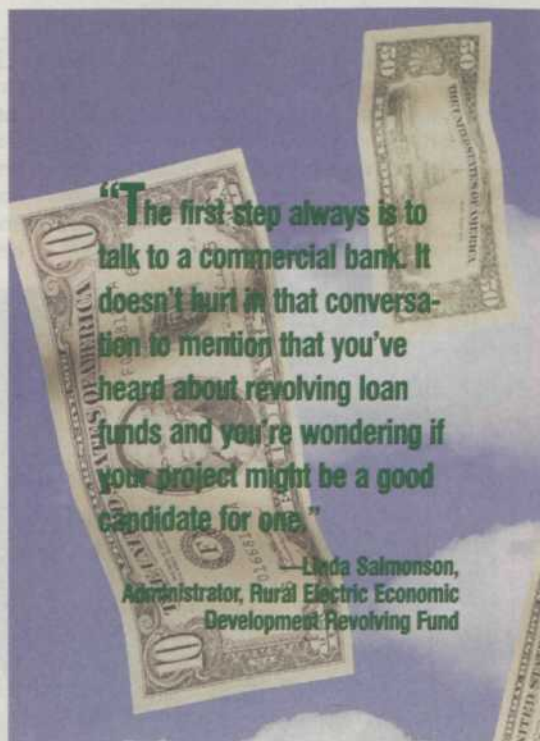
So far, REED has not experienced defaults on any of its loans. "I know the day will come when that won't be the case, but so far we have a 100 percent track record," says Salmonson.

Because of a downturn in agriculture last year, the number of employees at Ag Services dropped from seven to three, meaning it has not yet met the employ-

ment expectation of the revolving loan fund. The goal was for the company to retain its current positions and add three jobs.

"They have a period of time to ramp those positions in," says Salmonson.

"Now business is starting to turn around and come back," says Hanson. "It does look a lot better right now."



How To Begin

The following suggestions can help you pursue a loan from a revolving loan fund:

Start with your bank.

"The first step always is to talk to a commercial bank," says Salmonson. "It doesn't hurt in that conversation to mention that you've heard about revolving loan funds and you're wondering if your project might be a good candidate for one."

Bankers usually know what revolving loan programs are available. And Salmonson points out that loan funds provide "gap financing"—funds that your bank can't or won't provide.

Says Salmonson: "It's much easier for me to deal with a borrower who says, 'I talked to my bank, and they said they'll give me X dollars, but I need a little bit more. Would you be interested in entertaining an application?'"

She adds that the RLF that she runs does not want to compete with banks but to partner with them.

Contact development agencies.

Particularly if your bank is not familiar with revolving loan funds serving your

area, check with city, county, and state economic-development departments or corporations. They usually have information on such programs.

Do some research on whether your company might be eligible for financing from a particular revolving loan fund.

"I spent quite a bit of time trying to learn what was needed—what kind of financial information they needed, what qualified, and what didn't qualify," says Roger Rozell, who shepherded the application process for Ag Services.

Before the loan was finally approved, the company, primarily an animal-feed producer, had reconfigured itself to put more emphasis on extracting and extruding soybean oil for uses ranging from cooking oil to antifreeze.

"We were adding to the business, which would in the end utilize more power from Northern Electric, and I guess that was the ultimate goal that they wanted," says Rozell, who has since become controller at another company.

Develop a comprehensive business plan.

"Be prepared to share ... historical financials, personal financials, and financial projections," Salmonson advises.

Kee in mind that no two RLFs are alike. Their differences in purpose will be reflected in the kinds of businesses they are trying to reach and the qualifications they establish.

Even the RLF's source of funding will have an impact on a business owner. Some of the major sources of funding include federal and state governments, foundations, and banks.

While a state or federal government might not get involved in approving or disapproving the loans that an RLF may fund, it might impose requirements that slow the approval process—such as an environmental assessment, for example, if construction is involved.

The RLF industry is growing—the Corporation for Enterprise Development says it doubled from 1993 to 1998—so it pays to seek out any revolving loan funds in your area. If it were not for their electric company, the people at Ag Services would not have known about REED. Learning about it led eventually to a \$200,000 finance package.

"As a small business, money is an ever-present problem," says Roger Rozell. "You always need money."

WOMEN IN BUSINESS

Widening The Web Of Resources

By Sharon Nelton

The World Wide Web is fast becoming a source of technical assistance and education for women business owners.

In January 1998, the Office of Women's Business Ownership at the U.S. Small Business Administration launched what its developers hope will become the premier World Wide Web site for women entrepreneurs: the Online Women's Business Center, at www.onlinewbc.org. By early July, the site had received about 1 million visits.

"Even though we expected a large demand, we didn't have any idea how large it was," says Sherrye Henry, who heads the Office of Women's Business Ownership.

Even more surprising, says Henry, was the discovery that women in more than 100 countries had visited the site. "So without knowing it, we [had] launched an international women's site," she says.

The site contains more than 1,000 articles on starting, growing, and expanding a business. Topics range from an introduction to bookkeeping and accounting to electronic commerce, team-building, and understanding capital sources. If you want to sell to the government, for example, you can find out how in a section of the site called "Procurement Place."

There are links to dozens of other useful sites, opportunities to exchange information with other entrepreneurs and ask them questions, and stories about successful women business owners.

Hundreds Of Questions

The site was developed and is run by the North Texas Women's Business Development Center, an SBA-sponsored educational center in Dallas.

In addition to an initial grant of \$150,000 from the SBA, which it won through a competitive process, the Texas center raised matching funds from five national private sponsors: IBM Corp.; J.C. Penney Co., Inc.; NationsBank (now Bank of America); GTE Corp.; and Avon Products, Inc.

Much of the information on the site is

provided by the nearly 70 SBA women's business development centers across the country, all of which are linked to the online center.

The online center receives about 300 e-mails daily from women business owners; their questions are forwarded to the most appropriate women's business development center for response.

The site has been available in Spanish since October. Says Henry: "When you look at the fact that we have 18 million Americans for whom Spanish is the first language and [that] Hispanic women [entrepreneurs] are the fastest-growing segment in the business community, we realized that we had to reach them in a more specialized way."

Henry says the online center should eventually be a place that educates women about electronic commerce, allows them to trade internationally, and enables them to take long-distance classes from women's business development centers.

Scrolling The Sites

The fact that an Internet site is aimed at women does not necessarily mean it will be more valuable to women entrepreneurs than other sites. There is an abundance of information helpful to women through a variety of sites.

A lot of what women need to know to run a business can be found on the Internet.

Following are descriptions of some of the particularly useful Web sites.

■ www.toolkit.cch.com connects you to the Business Owner's Toolkit, operated by CCH Inc., a Riverwoods, Ill., company that provides business, legal, and tax information and software. There's a virtual warehouse of small-business knowledge here, ranging from model business plans to sample company policies (on sexual harassment, for example, or on smoking) that can be adapted to your enterprise. An online advice column addresses topics such as exporting, bar codes, and dealing with bomb threats. For a fee, an information-retrieval section provides business reports, market research, and other services.

■ www.score.org is the site of the SCORE Association (Service Corps of



PHOTO: ©DENNIS BRACK—BLACK STAR

Education and electronic commerce are among the offerings that Sherrye Henry, head of the U.S. Small Business Administration's Office of Women's Business Ownership, envisions for the office's new World Wide Web site.

WOMEN IN BUSINESS

Retired Executives). SCORE, a Washington, D.C.-based volunteer organization affiliated with the SBA, offers free business-counseling services via e-mail on its site. (See "SCORE's Impact On Small Firms," January.)

■ www.womenconnect.com is a commercial site run by women and based in McLean, Va. Click on "Business" for articles on entrepreneurial topics and for links to information on a conference called the Women's Economic Summit '98 and on certification of women-owned businesses.

■ www.nfwbo.org is the site of the National Foundation for Women Business Owners, based in Silver Spring, Md. It contains summaries of research on topics such as access to credit for women business owners and selling to the government.

■ www.slu.edu/eweb/index.html, known as eWeb, is a St. Louis University site aimed at providing support for entrepreneurs. It offers a guide on how to use the Internet for tasks such as finding financing or searching for company information, and it lists university-based entrepreneurship centers across the country.

■ www.fambiz.com is designed for execu-

The Online Women's Business Center is foremost a World Wide Web site for women. "We wanted a place where women felt comfortable and where they talked to each other in language that they found familiar."

—Sherrye Henry, SBA Office of Women's Business Ownership

tives and owners of family-controlled companies. Sponsored by NetMarquee Inc., an Internet-marketing-services firm in Needham, Mass., the site offers more than 300 articles on a wide range of family-business subjects.

■ www.entreworld.org, or EntreWorld, bills itself as "A World of Resources for

Entrepreneurs." The site is sponsored by the Kauffman Center for Entrepreneurial Leadership, a division of the Ewing Marion Kauffman Foundation in Kansas City, Mo., and its editors provide links to what they consider the most useful information on starting or growing a business.

Some sites, among them eWeb and EntreWorld, lead readers to other sources. Other sites, such as the Online Women's Business Center and the Business Owner's Toolkit, are destinations in themselves, offering instant access to articles and other information.

Ultimately, business information on the Internet knows no gender. Men are using the Online Women's Business Center, notes the SBA's Henry, "and we're so happy to have them. There's no reason why they shouldn't."

Nonetheless, it's foremost a site for women, Henry adds. "We wanted a place where women felt comfortable and where they talked to each other in language that they found familiar. And I think if you read the site, you will see that it is the language of women talking to women."

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April Poll Results

Small-Business Issues

Nation's Business readers who responded to a poll in the April issue put top priority on having Congress ensure that Social Security reform and federal regulation don't overburden small businesses.

Respondents to the Where I Stand poll also gave high priority to speeding up the phased-in increase in the estate-tax exemption and the phase-in of 100 percent deductibility of health-insurance costs for the self-employed.

Readers were asked to give priority rankings to six issues considered important to small companies.

Ninety percent gave high priority to ensuring that new federal laws don't impose additional costs and requirements on small businesses, while 89 percent gave top ranking to making sure that any reform of Social Security does not place higher taxes or new administrative requirements on small firms.

Among the six issues, the lowest priority ratings were given to having Congress further clarify the distinction between employees and independent contractors, who are workers hired only for specific projects.

Here are the complete results of the poll:

What level of priority should Congress place on these issues that could affect small business?

Independent Contractors: Further clarify the distinction between employees and workers hired only for specific projects.

High priority	24%
Medium priority	34
Low priority	42

Social Security: Ensure that any reforms do not burden small firms with higher taxes or new and expensive administrative duties.

High priority	89%
Medium priority	10
Low priority	1

Health-Care Deduction: Accelerate the five-year phase-in of full deductibility of health-insurance costs for the self-employed—to match immediately the 100 percent deduction for companies with employees.

High priority	59%
Medium priority	26
Low priority	15

Estate Taxes: Accelerate the 10-year phase-in of an increase in the estate-tax exemption to \$1 million.

High priority	72
Medium priority	20
Low priority	8

Year 2000 Problem: Provide federal protections to limit liability if there are legal actions resulting from Y2K problems.

High priority	46%
Medium priority	31
Low priority	23

Federal Mandates: Ensure that any new federal laws do not impose additional costs and requirements on small businesses.

High priority	90%
Medium priority	8
Low priority	2

at what point does doing well
change to being wealthy?




build something

For years, you've kept your head down and worked hard. Now, hard as it is to believe, you're making more than you ever expected. You have more sophisticated investment options to consider. More tax implications to think about. And you need more help sorting it all out. That's where The Private Clients Group at Fleet comes in.

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I WAS ACCUSED OF THAT ONCE.

being able to count on your wireless calls going

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good. In fact, we've developed an advanced digital

network with the specific goal of eliminating the

"ifs" from the simplest, most convenient

way to stay in touch. So all you

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 **Bell Atlantic Mobile**

Small Business Technology

Looking good with graphics; keeping computers tuned up; finding documents that have slipped from view.

By Tim McColm



PUBLISHING

First-Rate Design On A Desktop

Many businesses and individuals have discovered their creative side thanks to desktop publishing software. These programs give people the tools to create their own fliers, newsletters, and signs that combine text, graphics, and photos.

But something has been missing. Professional publishing programs generally require users to be adept at graphics and design. Programs for novices have been easier to use, but they produced lower-quality designs.

As a result, there has been a lack of good software for the sales and marketing specialists, administrative assistants, and other employees whose task is to make their companies look good.

Change is on the way, though, thanks to programs such as PageMaker Plus from Adobe Systems Inc. in San Jose, Calif., and Publisher 2000 from Microsoft Corp. in Redmond, Wash. Each program is loaded with tools to help businesses produce high-quality designs on their own.

PageMaker Plus (Adobe Systems Inc., 1-800-422-3623, www.adobe.com); \$499.

PageMaker helped launch desktop publishing, and it continues to be regarded by professional designers as a market leader. But for years it was difficult for non-designers to use.

Now Adobe has created a version for businesses called PageMaker Plus. It incorporates both professional design tools and ease-of-use features.

Available for both Macintosh and PCs, PageMaker Plus comes with an array of templates and on-screen "wizards" that lead users through the process of creating professional-quality documents.

The Windows version of PageMaker Plus has a template and picture "palette" that lets users select PageMaker design templates and im-

ages. This template system also lets users organize content from other applications such as word-processing programs. PageMaker Plus comes with more than 4,700 stock illustrations and 300 high-resolution photos that users can insert into their documents.

For further ease of use, the software has an icon-based tool bar with links to commonly used features and commands. In addition, PageMaker Plus can convert files for people who have previously used Microsoft Publisher, allowing them to reuse their old designs and templates.

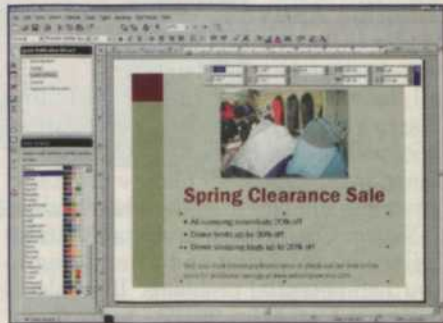
PageMaker Plus comes with a limited-edition version of Adobe's Photoshop photo-editing software, which lets users enhance photos before inserting them into PageMaker documents.

Publisher 2000 (Microsoft Corp., 1-800-426-9400, www.microsoft.com); \$99.

Microsoft is answering Adobe by enhancing Publisher 2000, its desktop publishing software for nonprofessionals. Publisher 2000, which will be included in the Office 2000 Small Business Edition productivity-software suite due in June, has been enhanced to make it easier to create well-designed documents.

People familiar with Office applications such as Microsoft Word should find it simple to create documents in Publisher or enhance documents started in Word—the two products have nearly identical interfaces and tool bars. But if users run into trouble, the software will volunteer advice and assistance through its integrated but sometimes overzealous Office Assistant help system.

The software's publishing tools have been improved, enabling novice users to make documents that look more professional. There are more than 2,000 publication templates for documents such as brochures, catalogs, fliers, newsletters, and World Wide Web sites. (Publisher 2000 can in-



Microsoft Publisher 2000

stantly convert documents created with the software into Web pages.) The software has "master style" design sets that ensure consistency of appearance in a company's documents.

Publisher 2000's quick-publication feature offers 50 design and layout options for creating one-page documents. It also provides 78 specialty-paper publication templates for printing with black-and-white laser or color inkjet printers on various media.

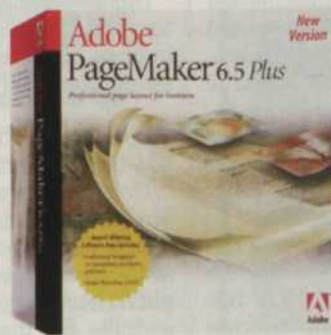
In addition, there's a wizard that helps users save their documents to disks that can be taken to a commercial printer.

Preventing Problems Through Basic Computer Maintenance

Just as a car needs periodic maintenance to keep it running, so does a PC. With continual use, computers are affected by viruses, software conflicts, and an array of technical glitches. A little ongoing maintenance can prevent big problems in the future. The following software can help.

Norton SystemWorks (Symantec Corp., 1-877-469-7467, www.symantec.com); \$69.95 for Standard Edition, \$99.95 for Professional Edition.

Symantec has created a suite of applications for keeping a company's PCs working and for preventing problems before they become too severe. Norton SystemWorks incorporates the firm's Norton AntiVirus,



Adobe Systems PageMaker Plus

SMALL BUSINESS TECHNOLOGY

CleanSweep, CrashGuard, and Utilities software, plus some bonus Symantec programs.

Norton SystemWorks doesn't just pack a bunch of applications in a box; it provides a centralized menu for launching them. These applications can also be used simultaneously. And, using the Web, you can constantly update each application by clicking on an update button.

Norton AntiVirus, a leader in antivirus software, can protect against all known computer viruses, including macro viruses that infect documents in Microsoft Access, Excel, and Word. Norton CleanSweep lets users remove unwanted programs and files from their hard disks.

Norton CrashGuard protects PCs from failure by detecting and attempting to ward off potential problems. If problems do occur, CrashGuard tries to fix them, and it can recover data that may have been lost.

Symantec's flagship product, Norton Utilities, is an essential toolbox for fixing and maintaining software and hardware.

Norton SystemWorks Standard Edition comes with a suite of software, including a year 2000 problem-detection program, mobile computing software, fax software, and pcAnywhere Express remote-access software.

The Professional Edition adds a full version of Norton 2000 year 2000 software and Norton Ghost, which lets users copy the contents and configuration of one hard disk onto other PCs. Both versions include a six-month subscription to Symantec's Web-services Web site, which provides maintenance tools and updates.

Panda AntiVirus Platinum (Panda Software, 415-392-5850, www.pandasoft.com); \$59.

Just when it appeared that users had only two choices of antivirus software, from Spain arrives Panda Software's AntiVirus Platinum, an industrial-strength package that can rid PCs of the peskiest computer viruses.

Norton's AntiVirus and the McAfee VirusShield from Network Associates Inc. may dominate the U.S. antivirus market, but Panda's software is popular in Europe, and the current version



Symantec Norton SystemWorks

debuts in the United States with technology designed to make PCs safe from Internet-borne viruses.

Panda AntiVirus Platinum can detect and disinfect viruses transmitted through Internet e-mail attachments and files as they are downloaded, preventing them from being stored in a PC's short-term memory or from being inadvertently opened before detection.

The software is particularly useful when used with Microsoft's Outlook e-mail software or Exchange

messaging software. The program also protects against virus-like ActiveX and Java applets—programs that can be embedded in Web pages and that users can download inadvertently when they view a page. Applets can alter a PC's hard disk, infect applications and data, and even reconfigure a PC's Internet connections.

In addition to offering Internet protections, Panda's software can ward off more than 20,000 viruses from a PC's hard disk or memory.

Each day, users can receive automated updates from Panda's virus-detection database via the Internet.

Finding It Right Where You Stored It

Do you sometimes have trouble finding information stored on your PC? If you're like most computer users, the answer is yes. From time to time the information you really need is nowhere to be found.

The following products are designed to help small-business people quickly locate vital information such as contact phone numbers, business letters, invoices, and e-mail.

DragStrip (Aladdin Systems Inc., 831-761-6200, www.aladdinsys.com); \$20.

Macintosh users who are looking for an inexpensive and easy way to organize the information on their desktops should consider DragStrip. It provides single-click access to all files, Web addresses, and software applications on a user's desktop by arranging them within desktop icons called palettes.

DragStrip eliminates the need to wade through a cumbersome array of file windows or menus to locate information, files, and programs. Instead, the

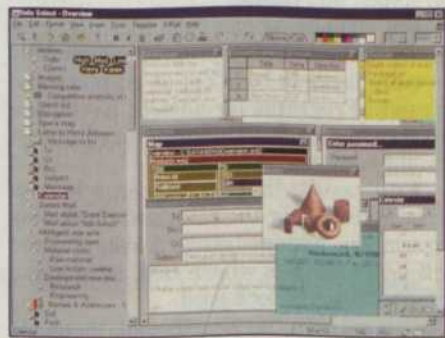
user creates palettes by dragging files and application icons onto the desired icon. To get a file or application, the user clicks on the appropriate palette and makes a selection from one of its tabbed pages.

DragStrip can be downloaded from Aladdin Systems' Web site. A Windows version is in the works.

InfoSelect (Micro Logic Corp., 201-342-6518, www.miclog.com); \$99.95.

Many longtime PC users swear by Micro Logic's handy and simple InfoSelect personal-information manager. The software has always made it quick and easy for people to store and retrieve contact information such as names, addresses, and phone numbers.

InfoSelect lets users store information in either a free-form database or in a structured form similar to many popular con-



Micro Logic InfoSelect

tact-management programs. It also has a calendar as well as scheduling, phone-dialing, and data-sharing features.

The latest version has been enhanced with Internet tools such as data encryption, e-mail sorting and mailing lists, and the ability to go directly to a contact's Web page by clicking on a Web address in the contact database.

One feature of the software lets users transfer information collected from Web pages, e-mail, and PC applications to their contact database by highlighting the data and clicking a button.

Info Select has new information-management features too. Users can view data in grids, use the software to sort and create outlines, and print data for labels.

PageKeeper Pro (Caere Corp., 1-800-654-1187, www.caere.com); \$49.

Using the Windows Explorer utility in Microsoft Windows 95 and 98 to locate files is fine if you're a very organized person with a great filing system and an elephant-like memory of the information in each file. For the rest of us, there's Caere's PageKeeper Pro.

PageKeeper Pro document-management



Panda Software AntiVirus Platinum

software lets users organize and find documents stored on their PCs. The software automatically files documents into folders based on the user's defined criteria. As documents are added, PageKeeper Pro creates an index of files, and it updates the index whenever the document is changed or moved.

To locate a file, the user can search by key words, phrases, dates, document type, or image size. The software then lists documents by their relevance, much as an Internet search engine would. Moreover, users can search for files that are similar to a specific document.

PageKeeper Pro manages documents created on the PC as well as those that are put in via a scanner or are downloaded from the Internet. As a result, the software manages images, word-processing documents, spreadsheets, Web pages, and e-mail.

PaperPort Deluxe and ScannerSuite (ScanSoft Inc., 1-800-787-7007, www.scansoft.com); \$49.99 and \$79.99, respectively.

ScanSoft's PaperPort software is used for organizing documents imported into a PC via a scanner. The software's latest version goes beyond scanning to organize information stored on a PC no matter how it was entered.

Like Caere's PageKeeper Pro, PaperPort Deluxe provides an alternative to the Windows Explorer file-management system used by most PCs. It organizes scanned documents, e-mail messages, Web pages, and files created on the PC using word-pro-

PAPERPORT. SCANNER SUITE 2.0

cessing, desktop-publishing, database, spreadsheet, or other applications.

The software works much like an Internet search engine such as AltaVista or Excite. To locate a file, the user types in key words, phrases, or file names. The software then brings up a list of files that either contain the words or phrase or match the file name.



Caere PageKeeper Pro

As such, PaperPort Deluxe is useful for people who create a lot of documents but can't remember where they put them. Moreover, it's still excellent for its designed purpose: managing the scanning process and organizing scanned images and documents.

PaperPort Deluxe is available as part of ScanSoft's ScannerSuite, which includes ScanSoft TextBridge Pro 98 optical character recognition software. The software converts scanned documents into computer text.

WebRecord Research Pro (Canon Software Publishing, 1-800-652-2666, www.software.canon.com); \$49.95.

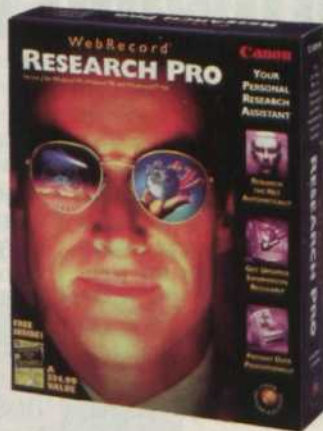
Canon's WebRecord software has undergone a tremendous transformation to become a valuable information tool for small firms. WebRecord was designed to help Internet users print Web documents, but the software seemed irrelevant since the documents could be printed without the aid of special software.

The new version, WebRecord Research Pro, is a true Internet research tool. It

helps people search for information on the Web, organize it on their PCs, and print it.

WebRecord Research Pro has a built-in Web browser that can be used to search the Web. Users can retrieve entire Web sites for off-line viewing. More impressively, they can schedule Web searches, and the software will go online at specific times and retrieve requested Web sites. It will even update Web information, which is useful if the user is tracking specific information such as news, prices, and investment information.

As a bonus, WebRecord Research Pro comes with *Researching Online for Dummies*, by Reva Basch (IDG Books, \$24.95), which has more than 300 pages of tips for searching the Web.



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TECHNOLOGY

Tailored Solutions For Growing Firms

By Tim McCollum

Just getting office computers up and running is typically hard enough for small companies. Then, as the firms grow, their computing needs become more complex—too complex for the companies to handle on their own.

Some small companies never find the help they need, and they typically end up with crossed wires and system failures that make them long for simpler, lower-tech times.

But many small firms turn to computer dealers or consultants to get help in making sense of their computing needs and to tailor hardware, software, and networks that will work best for them.

Turning to a consultant—and choosing the right one—can be the best way to move a firm's computer system to the level necessary for productivity and growth. A company that made that decision is Circuit Manufacturing Inc. of Wilsonville, Ore.

The firm assembles prototype circuit

boards and electronics equipment, and its business was increasing with contracts from companies such as chip-maker Intel Corp., based in Santa Clara, Calif., and printer manufacturer Tektronix Inc. in Wilsonville.

Calvin Rasmussen, president of Circuit Manufacturing, says the firm was behind the technology curve, saddled with old DOS accounting software and a paper-based manufacturing process. The company needed to modernize its operations but was having trouble finding anyone to help with the task.

Last spring, Rasmussen received presentations from area computer consul-

Circuit-board maker Calvin Rasmussen, right, president of Circuit Manufacturing of Wilsonville, Ore., enlisted consultant Walt Pearson's firm, Interactive Explorers of Beaverton, Ore., to upgrade and manage a new computer system.

Computer consultants and small companies are beginning to discover each other.

tants. A consulting firm that impressed him was Interactive Explorers Inc., a Beaverton, Ore., company that specializes in helping small businesses.

Walt Pearson, president of Interactive Explorers, took the time to learn about Circuit Manufacturing's business and assess its needs. Moreover, Pearson didn't just want to install new software and hardware; he wanted to manage the system after it was in place.

"They seemed to look a lot closer than other companies" that made presentations, Rasmussen says of Interactive Explorers' experts. "Then they created a very detailed proposal. They had a complete action plan that said when things were going to be done, and they've held right to it."

Over a period of several months, Interactive Explorers installed and customized new Windows-based accounting and business-automation software called U.A. Corporate Accounting from Advanced Soft-

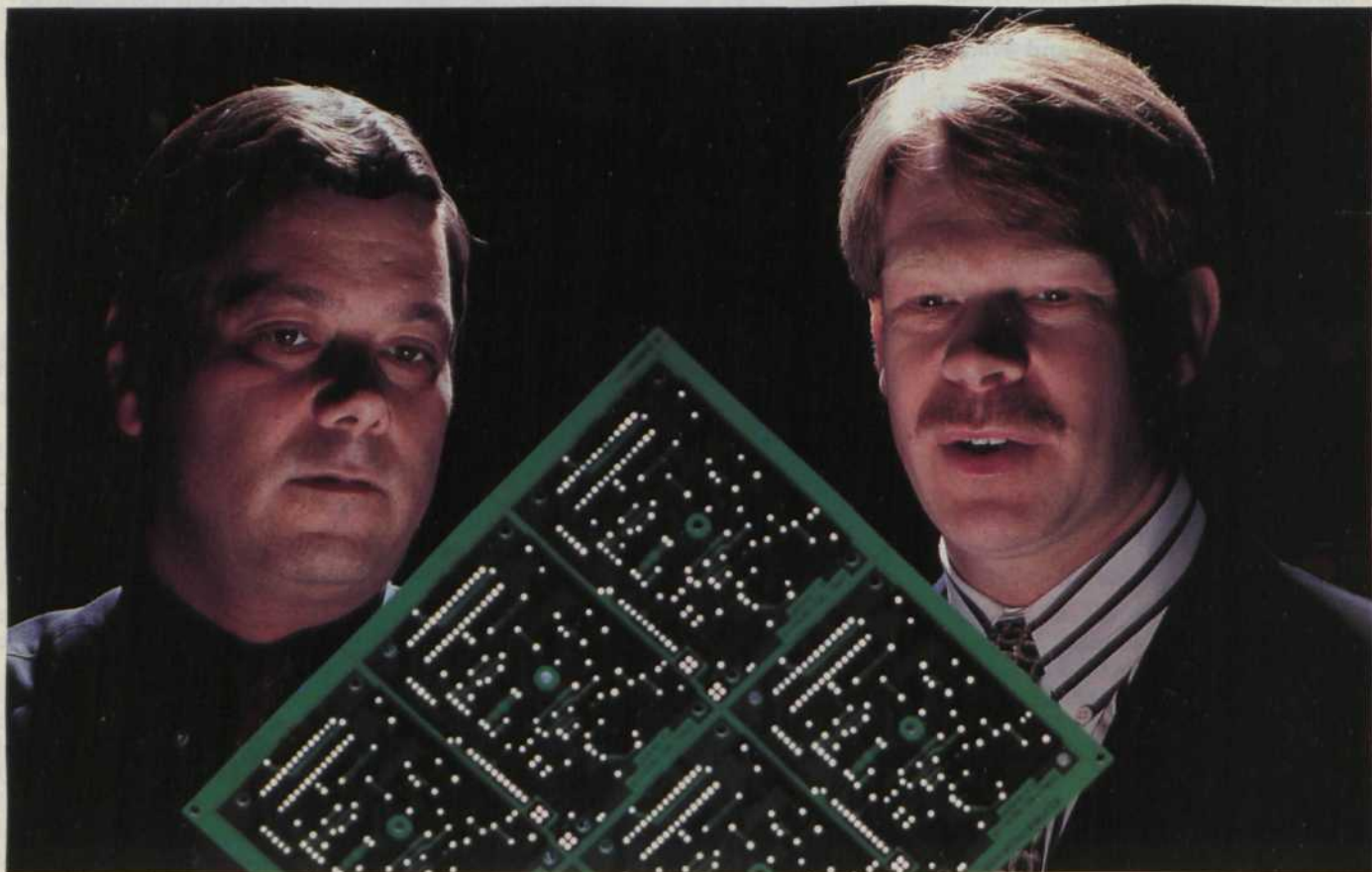


PHOTO: OTIS JEWETT

ware Development Corp. in Houma, La. The company also built three PCs and a network server and set up a network using Small Business Server network software from Microsoft Corp. in Redmond, Wash. The network gives users access to accounting and manufacturing data as well as word-processing and e-mail.

Once Circuit Manufacturing moved over to the system, Interactive Explorers trained and assisted users and fixed any problems that arose.

A Growing Need

Circuit Manufacturing was fortunate in how it addressed its need to improve its computer system. Most small companies have difficulty installing and maintaining technology because they lack the expertise to make the right decisions about it. They typically don't have a computer technician or network manager on staff to take care of their computers and networks and to provide advice. Yet nearly half of small-business owners make technology decisions on their own, according to a 1998 study commissioned by IBM Corp. in Somers, N.Y., and the U.S. Chamber of Commerce.

At the same time, small businesses are becoming increasingly dependent on technology. Although most small companies have PCs, only 27 percent of firms with fewer than 50 employees have computer networks, according to International Data Corp., a technology-research firm in Framingham, Mass. Networks can greatly boost a firm's productivity by allowing employees to share information and resources.

Many small companies are interested in linking to the Internet as well. These networked applications are more than most small firms can manage by themselves, however. They require the assistance of people who are trained to install and maintain hardware, software, and networking components.

In the past, small companies had a hard time finding a technology consultant because as customers, the small firms were viewed as one-shot opportunities—offering no potential for establishing a long-term relationship. Consultants and computer dealers or resellers would sell the small firms software and hardware, put together a network, and move on to the next company.

Now, technology consultants are seeing new opportunities to serve small companies. In putting together a network—

which more small firms are installing to improve collaboration and allow employees to share resources—or Internet capabilities for small firms, consultants can develop longer-term relationships with such clients. The consultants not only build the systems but also manage them.

In the process, they're building technologies that help companies succeed, such as accounting systems, e-mail, networks, sales-force automation, and World Wide Web sites.

"We do think of ourselves as technology advisers," says Cathy Fidler, president of Micro-Group Inc., a Springfield, Ill. com-

At the same time, however, technology vendors are raising the standards that consultants must meet to be considered official partners.

Participating in consultant programs with vendors such as Intel and Microsoft has enabled Interactive Explorers to better serve its small-business customers, including Circuit Manufacturing, says Pearson, the firm's president. "It's one of the advantages that we have to offer companies. The more communication we have with the vendors, the easier it is to implement solutions for everybody."

Such assistance has enabled Interactive Explorers to become Circuit Manufacturing's information technology department. The consulting firm monitors the company's hardware, software, and network remotely by modem and responds to any problems online or by dispatching a technician to Circuit Manufacturing's site.

"We assume that the small business doesn't have the ability to bring in all the experts that a big company has," Pearson says. "We try to screen them from most of the situations so they don't have to deal with them."

Tailored Solutions

An increasing number of small firms are looking to consulting companies to create customized software and networks that suit their needs. A number of consulting firms specialize in writing specific kinds of applica-

tions or customizing off-the-shelf applications for small firms. Accounting, electronic commerce, and sales-force-automation applications are especially popular. These software specialists play a dual role: software developer and consultant.

Veterinarian Dr. Lanny Lancaster turned to such a specialist when it was time to upgrade the software at his Marion, Ark., practice.

Lancaster's Animal Health Clinic had outgrown the software it had been using to manage the practice since it opened in 1990. The software, developed by a programmer in nearby Memphis, Tenn., lacked inventory-management features needed to keep track of medicines, pet supplies, and equipment.

Lancaster, who says the programmer wasn't interested in upgrading the software with these new capabilities, went shopping for a new system in 1995. He looked at systems from several firms that specialize in clinic-management software,



PHOTO: GUM CHAPPELL

Veterinarian Dr. Lanny Lancaster upgraded his office's computerized management system with customized software.

puter consulting firm that works with small companies. "A majority of our clients will talk to us because they have a general idea of what technology can do for them. What we do is discover what a business needs to make technology work for them."

Rising Expectations

Computer hardware, software, and networking vendors are beginning to expect their dealers and authorized consultants to do more for small-business customers as well. Companies such as Cisco Systems Inc., Compaq Computer Corp., Hewlett-Packard Co., IBM, and Intel Corp. are providing training and marketing assistance to their consultant and reseller partners to help them work with small firms.

Moreover, most computer manufacturers now sell PCs that can be managed by a consultant remotely, via modem. This allows small firms to outsource network-management and computer-maintenance duties to consulting firms.

TECHNOLOGY

but he was put off by their high upfront software-licensing fees—sometimes more than \$10,000, not including upgrades and maintenance.

Lancaster learned about a package called V-Tech from Advance Micro Systems of Tucker, Ga. The company's sales manager, Lee Bailey, visited and demonstrated the software. Lancaster liked what he saw, but he also was pleased to find that the company would customize the software for him, install it, and train his employees.

What ultimately sealed the deal was Advance Micro Systems' licensing plan. Instead of having to pay at the outset to buy the software, Lancaster pays \$1,200 a year in monthly installments. The cost includes ongoing service and quarterly software upgrades.

Lancaster uses Advance Micro Systems' software to manage his entire business, including billing, inventory, and more than 4,000 customer records. It runs on a network connecting six PCs at the front desk, the business office, and the examination room.

When clients bring in their pets, Lancaster or the other staff vet designates the type of treatment rendered and enters comments about the pet's condition into the system. This information is then transferred into the animal's medical file and into an invoice for the visit.

"With this system, we've added better pa-

tient accounting and recall than before," Lancaster says. "And when we enter information, it all goes into the invoice when people come to pick up their pet."

Getting A Good Fit

Most small firms don't need customized software development; off-the-shelf software can meet most of their requirements.

A must for all companies, however, is to choose technologies that match the needs of their business. This is particularly important for the "mission-critical" applications that they depend on to operate efficiently and be competitive.

Too often, firms expect off-the-shelf software to do something it can't, says Nelson

Carbonell, president and CEO of Alta Software Inc., a Reston, Va., firm that builds customized Internet applications. "There are lots of off-the-shelf technologies that are inexpensive to buy but cost a lot more to install and keep going," Carbonell says. If you buy such a package, he says, "then resign yourself to [doing] what it does."

That advice goes for hardware and networking as well. Small firms should also be wary of consultants who want to sell them a one-size-fits-all technology solution that they neither need nor can afford.

Good consultants sell business solutions rather than technology. They can be a valuable strategic resource for savvy business owners. **NB**



I know a PEO's services will give me more time to invest in my company's success...

but which PEO should I choose?

Choosing Wisely

Small-business owners don't have to be computer experts to find the right technology consultant for their companies. What they need to do is ask the right questions and set realistic expectations.

The best approach is to listen to a number of consultants and ask tough questions about their work.

Find a consultant who has worked with businesses that are similar to yours, and see how they've helped those firms. Ask the firm's customers to tell you how they performed.

Most important, company owners should choose a technology consultant who understands their business and takes the time to truly know what they need. They're not just buying technology, they're buying expertise.

"I think good entrepreneurs understand what makes them money," says Cathy Fidler, president of Micro-Group Inc., a Springfield, Ill., consulting firm. "They don't need to have knowledge of technology as long as they have an adviser. They don't need to be burdened by it."

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New Dynamics For A New Era

By Dale D. Buss

As recently as 10 years ago, the typical franchise owner remained much like his counterpart from the formative decades of the U.S. franchising industry in the postwar era: owner of a single fast-food outlet across town from his home, otherwise inexperienced in business, putting in lots of 15-hour days to keep things reliably on course.

He never doubted that the franchisor was his senior partner. He counted on his golden franchise to help him earn a chunk of the American dream and got satisfaction out of running his own show even while he earned only about \$50,000 a year.

But today's prototype franchisee has come from a very different mold. More and more, he or she owns multiple outlets throughout a metro area or across a region, perhaps operates various franchise brands even in disparate businesses, and is an experienced manager whose clout and sophistication nearly level the playing field even with big-time franchisors.

Representative of the new breed is Steven Siegel, a lawyer and retailing executive who is a principal partner in Watermark Donut Co., owner of 35 Dunkin' Donuts franchises in the Northeast.

He is slated in 2002 to become the first franchisee to rise to president of the International Franchise Association (IFA), traditionally a trade group that almost solely represented the interests of franchisors.

"It's still the franchisors' brands that drive this industry," says industry expert Michael Seid, but there are more and more multiple-unit owners who "have a strong economic base of their own and more professionalism." Seid, managing director of Michael H. Seid & Associates, a franchise advisory firm in West Hartford, Conn., says such franchisees are "very much geared in a different way to the business: as an investment, rather than as a new job or a lifelong dream."

Through about 600,000 units operating under more than 2,500 franchisor banners, the \$1 trillion franchising industry accounts for about half of all retail sales in the United States, according to the IFA.

As franchising approaches the new millennium it is expected to continue its robust expansion, its innovativeness, and its diversification into new services and industries.

Here are major trends that franchisors,

franchisees, and independent experts say will shape the industry in the years ahead:

Aging Baby Boomers

The generation now in its late 30s to early 50s will continue to reshape the American economy. At a recent IFA convention, the popularity of golf among boomers was addressed by retailers such as Golf Augusta Pro Shops and Golf USA.

The franchising industry is experiencing a sea change as it enters the new millennium.

Boomers' growing concern about healthful diets is fueling the growth of franchise concepts such as Taco John's International, a chain based in Cheyenne, Wyo. Taco John's has been overhauling its menu to emphasize freshness and what Paul Fisher, president, calls "higher-quality proteins such as chicken breast, lean steak products and rice, and refried beans made without fatty oils."



PHOTO: ©BOB MAHONEY

To serve consumers "who have more money than they have time," Mini Maid Services founder Leone Ackerly is developing a concierge service. Behind her at home in Marietta, Ga., are, from left, Amanda Burnette, Travita Turner, Laurie Ackerly, and Dannette Pettengill.

At the other end of the physical spectrum, says consultant Seid, some hospital chains are considering franchising arthroscopic surgical suites to tap into the growing market for repairing boomers' bodies.

Refining The Service Economy

Americans of all demographics continue to force evolution in business because of their seemingly insatiable desire for convenience and saving time. Visionary fran-

FRANCHISING SPECIAL GUIDE



PHOTO: GREG HOFFER

Residential-services franchisor Dina Dwyer-Owens, CEO of the Waco, Texas-based Dwyer Group, draws franchisee prospects from the firm's employee ranks with franchise-purchase discounts.

chising interests are responding.

"People are interested in anything that will make life simpler for them," says Howard Bassuk, president of a San Diego-based consultancy, Franchise Network Group.

Atlanta-based Mini Maid Services Inc. has been riding this phenomenon since its founding by Leone Ackerly in 1973 as a

residential maid service. To sustain the momentum, Ackerly envisions a concierge service at \$15,000 a year per person. The Grand Cru service will attend to tasks ranging from house sitting to clothes laundering, shopping, lawn maintenance, dog grooming, and hotel, restaurant, and other reservations.

"There's a huge market out there," says Ackerly. "There's a level of consumers who have more money than they have time, they are so busy working.

And there is such a shortage of labor. Plus, this will make a great incentive bonus for corporations to offer their top executives."

Broader Variety Of Industries

Franchising of industrial services, for example, is exploding, says Don DeBolt, president of the IFA. For example, Metal Supermarkets, based in Brampton, Ontario., is

establishing local franchisees who supply customized metal fabrications for factories—for purposes such as machine repair.

DuPont Corp. has begun franchising commercial carpet-sales operations, with more than 15 franchisees signing on in less than two years, according to Seid, who is a consultant to the Wilmington, Del.-based chemical giant.

Exxon Corp. is considering franchising its Tiger Markets, a format it is establishing at many company-owned gasoline stations. It includes a 4,000-square-foot grocery stocked with products meant to be a notch above usual convenience-store fare.

Experimentation With Formats

The franchising industry has been increasingly interested in trying out new formats that enhance customer convenience. St. Louis-based Pizzas of Eight offers a "branded" program in which outlets are set up inside nontraditional venues such as convenience stores, supermarkets, and bowling alleys. It has about 175 independently owned and operated outlets in 42 states and hopes to extend its reach into new markets such as video stores.

"American consumers are looking for one-stop shopping," says Abe Smith, director of sales and marketing for Pizzas of

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Eight, which is owned by Petrofsky International Co., a supplier of pizza dough.

Evolution Of The Franchisee

Franchising is drawing more and more experienced executives, managers, and business owners into the acquisition of multiple outlets that may give them control of a brand over entire metropolitan areas, states, and even regions.

"These are professional business people and investors who are looking at franchising because it can bring them some of the same kinds of returns on their dollar that they're getting from other investments," says Seid. "There are more high rollers in franchising than ever. Ownership is consolidating away from the mom-and-pops and into area developers who want a critical mass [of outlets] for marketing and distribution purposes."

Changing Franchisor-Franchisee Ties

The changing profile of the typical franchisee, in turn, has been one of the factors that has brought about a gradual shift in leverage in the franchisor-franchisee relationship over the past several years that is expected to continue.

"There's a leveling of the playing field

now," says Andrew J. Sherman, a partner in Washington, D.C.-based law firm Katten Muchin & Zavis and the author of a new book, *Franchising & Licensing: Two Ways to*



PHOTO: OFRED MERTZ

"Behind the curtain" of Scott Jacobs' California-based Country Clutter stores is the latest technology for franchisees and customers.

Build Your Business (Amacom, \$45).

Says Sherman: "The typical franchisee 15 years ago was a gym teacher making \$30,000 a year who hoped to make \$50,000 a year if he was buying the right franchise. Now, you've got people coming from corporate America with MBA-type backgrounds,

very sophisticated people who in turn have sophisticated advisers."

Experts expect the leverage issue more and more to bring equilibrium both within major franchised brands and in the industry as a whole. For one thing, notes Seid, "you're never going to level the playing field completely because it will always be the franchisor's brand."

The IFA's DeBolt says both sides of the equation doubtless will end up focusing on what's best for the brand because it's both sides' meal ticket.

More Variety In Financing

As the industry and the profile of franchisees have evolved, so has the means by which franchise growth is financed. Franchisors are encouraging the growth of alternatives such as the mortgage-style financing offered by companies such as Franchise Mortgage Acceptance Co. The Los Angeles-based company



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has written almost \$5 billion in secured loans to franchisees since 1991, mostly multiple-unit operators in the restaurant marketplace.

Most financing used to be obtained locally from banks that evaluated a franchisee's assets as if he operated a conventional company, says Michael Demita,



PHOTO: GREGORY BURROUGHS

A satellite system will foster communication among franchisees of San Diego-based Mail Boxes Etc., says James H. Amos Jr., president. At right is Thomas K. Herskowitz, executive vice president.

executive vice president of marketing for Franchise Mortgage. His company, he says, recognized "the ability of that business to drive cash flow to the bottom line" and so began financing restaurant franchisees with longer-duration, easier-terms debt.

A Paucity Of Candidates

Some changes have made it tougher for the mom-and-pop franchisee aspirant to get a foothold in the industry. For example, innovative financing is tough for true start-ups to get, says Demita.

Three other major factors are adding to the relative shortage of good new franchisee candidates. Extremely tight labor markets are keeping potential candidates gainfully employed; soaring investment income from stocks is outshining the typical returns from franchise operations; and corporate downsizing isn't as rampant as it was a decade ago, so there aren't as many former managers who once served as a vast pool of potential franchisees.

The Dwyer Group Inc., a Waco, Texas, company with about 900 residential-services franchisees nationwide operating under various brands, adopted an innovative plan to keep its growth from stalling because of a shortage of franchisee candidates. Dina Dwyer-Owens, president and chief executive officer, launched a program under which employees of existing Dwyer franchises can buy a franchise at a discount

that increases with each consecutive year of employment. The discount can reach 50 percent after five years, or \$12,500 off the typical \$25,000 franchise fee.

"The candidate gets a chance to learn about how to run a business while he's still being paid for doing his job," says Dwyer-Owens. "And the franchisee gets a good employee with a chance to retain them."

The Rise Of Technology

Late though they may be, franchisors are jumping aboard the high-tech bandwagon to attract candidates and to position their operations for the new millennium. In communications alone, the Internet, satellite broadcasting, and other technologies are revolutionizing some franchise operations.

Take Country Visions Inc., a chain based in Vacaville, Calif., that operates company-owned and franchised Country Clutter stores. While the outlets present the ambience of a small country general store, everything "behind the curtain" is driven by technology.

The company's World Wide Web site, administered in-house, presents product offerings and other news for customers and potential franchisees. It also has an intranet for franchisees alone that offers tools such as operations manuals, an e-mail system, and bulletin-board and discussion areas.

"Franchisees can go, for example, and get ideas about unique window displays," says Scott Jacobs, 39, president and co-founder of the seven-year-old company. "This will strengthen our communications and our relationships with our franchisees. The more support they get, the more they are able to give back what they are doing and learning."

Mail Boxes Etc., a San Diego-based chain that says it is the largest non-

food franchisor in the United States, is embracing high technology in a huge way: with a \$10 million investment in a satellite-based system designed to enable instant communication between the company's 3,000 domestic franchisees and headquarters.

Among other things, the system will allow every Mail Boxes outlet to recognize loyal customers of other outlets of the chain. "This will allow the customers of national accounts to come in and do business at our franchises," says James H. Amos Jr., president of Mail Boxes Etc.

A New Emphasis On Training

Tight labor and the capabilities of technology are prompting franchisors to emphasize training as never before.

Battery Patrol Franchising LLC, based in Des Moines, Iowa, has begun a training thrust to make the employees of the company's 33 franchised outlets in the Midwest competent as quickly as possible to handle battery replacement and repairs for the various small appliances and other devices that customers bring into their stores.

Customers used to leave their cordless phones or wristwatches or electric razors for repair, says James R. Goodman, director of marketing. "But more than likely now they'll want to wait for the product; they don't want to be inconvenienced to come back. So we've been using this interactive training system to bring our people up to speed faster."

Battery Patrol's technological adaptation to its customers' growing demands may seem like a small gambit. But it's representative of everything that the U.S. franchising industry must do in the new millennium to make its products and services—and, indeed, the entire business model—not only survive but thrive in an increasingly dynamic economy. **NB**



PHOTO: GURM HEEMSTRA

Quick development of employees' expertise is a goal at Des Moines, Iowa-based Battery Patrol Franchising. With John Willemsen, left, president, is James R. Goodman, marketing director.

FINANCE

You Can Bank On The Personal Touch

By Sharon Nelton

A year after a larger bank bought York State Bank in Elmhurst, Ill., William C. Gooch Jr., York's president and CEO for 20 years, got the ax. At the urging of a local businessman, Gooch did what a lot of squeezed-out banking executives are doing in this era of bank consolidations: He started his own bank, Community Bank of Elmhurst.

Gooch's bank opened in a trailer in May 1993 with \$6 million in capitalization raised from local business people. Today it has assets of \$77 million and its own building.

Most important, the bank gives Gooch and his staff the opportunity to practice the kind of banking they believe in—community banking, in which bankers know customers personally, build long-term relationships with them, and become their allies, not their adversaries.

"We know the names of the *dogs* who come to the drive-in window" with their owners, Gooch says, adding: "If we remember the dogs' names, we certainly remember the people's names."

Gooch and Community Bank of Elmhurst are representative of a surge of bank start-ups that has been occurring in the 1990s—albeit quietly. Headlines have shouted the news of ever-larger bank mergers and acquisitions, with the result that the total number of commercial banks has declined from 12,700 to 8,900 over the past decade.

At the same time, about 600 new banks have been established in the past three years, according to the American Bankers Association.

Like Gooch's bank, most of these new banks are community banks, and that's good news for small-business owners.

"Small businesses really are the bread and butter of community banks because community banks themselves are small businesses," says Jennifer Bavisotto, director of communications for Independent Community Bankers of America, an association in Washington, D.C.

Bavisotto says the ICBA has found that larger banks are taking less interest in making small-business loans, whereas such loans are "what community banks thrive on."

When Gooch was still at York State Bank, he approved a loan for Dr. John D.



PHOTO: STODOLSKY

From humble beginnings six years ago, founder William C. Gooch Jr., left, has built Community Bank of Elmhurst, Ill., into a community-minded institution where bankers get to know and build long-term relationships with customers. Dr. John D. Jevitz, owner of a 3,400-patient medical practice, has been a longtime, loyal customer.

Jevitz when no other banker would. A newly minted chiropractor, Jevitz was trying to start his own practice and needed \$9,000 to get it off the ground. But he was saddled with student-loan debt. "I had absolutely zero collateral," he says, "except for my used car and a stereo."

To make ends meet, Jevitz held down seven part-time jobs, from taking X-rays for an orthopedic surgeon to serving as a high-school athletic trainer. Gooch was impressed with Jevitz's potential, intelligence, and work ethic.

When Gooch started Community Bank of Elmhurst, Jevitz, like many other York State customers, followed him to the new bank. "I couldn't ask for anyone to be more loyal to me," says Jevitz, whose Jevitz Chiropractic Clinic has grown to serve 3,400 patients.

Over the years, Jevitz has borrowed more than \$110,000 from York State Bank and Community Bank of Elmhurst. He

Community banks—unlike some megabanks—can offer small firms advantages such as local decision making and long-term relationships.

has paid it all back, proving that Gooch's faith in him was warranted.

The Local Angle

Definitions of a community bank may differ slightly, but banking experts generally agree that it's a bank dedicated to serving the needs of its home market. Usually—though not always—that means the bank is locally owned.

"All of our members are locally owned and locally operated banks, where decisions on loans and all other banking-product decisions are made locally," says Bavisotto of the ICBA, which has 5,500 members.

Kathleen M. Murphy, director of the Community Bankers Council of the American Bankers Association, also in Washington, says: "The overriding definition that we use is that a community bank is an institution that has accountability to other stakeholders in the community."

She emphasizes "stakeholders, not

FINANCE



PHOTO: T. MICHAEL KEZA

Community banks excel at personal service, says Kathleen M. Murphy, director of the Washington, D.C.-based Community Bankers Council of the American Bankers Association. "They will meet with a small-business owner ... and work with him on the business plan and growing the business to the next level."

shareholders," explaining that this means entities such as small businesses, the school system, the medical community, and the government, all of which need the support of a bank and can use its services.

Murphy says it's in the best interest of community banks to make sure the community is strong. "Therefore, they are constantly looking for ways to provide economic development and economic growth and jobs in their communities. For this reason, they're reaching out, looking for new opportunities for existing businesses to grow or to form new businesses."

Generally, community banks are small, with less than \$100 million in assets. The ICBA says 55 percent of its member banks serve rural communities.

Gooch says that a typical small-business customer at his bank will have a credit line of \$25,000 to \$100,000, will carry \$20,000 in a checking account, and will have a money-market account and a couple of certificates of deposit.

At Sarasota Bank in Sarasota, Fla., the majority of business customers have annual revenues of \$1 million or less, says the

bank's CEO, Christine L. Jennings. A typical business line of credit there is \$50,000.

Filling The Gaps

A number of factors have given rise to the wave of community-bank start-ups. One is the void created by bank consolidations, which frequently lead to loan and other decisions being made by bank officials who are not local rather than by bank officials who know the applicants.

Founders of the new banks—which people in the industry often call *de novo* (Latin for "anew" or "again") banks—saw a hunger for banks where bankers and customers know one another, where there is little turnover in bank personnel, and where decisions are made on-site.

The consolidations have made considerable talent available to start community banks. Bank executives who, like Gooch, lost their jobs in the consolidation shuffle or who, like Greg Lovell, an Idaho banker, found they didn't enjoy working for a larger bank, often gather investors—many of them small-business owners—and form a new bank.

Lovell, formerly senior vice president of

commercial lending at a consolidated bank, says that working in a large bank "just wasn't what I wanted to do, so I left and looked around and decided I wanted to start a bank." He launched First Bank of Idaho in Ketchum in May 1997.

A third factor, says the American Bankers Association's Murphy, is the good economy, which has been presenting "incredible opportunities" for starting new banks.

In Illinois, the surge of community-bank start-ups "has been taking place since about 1990 and has continued virtually unabated," says Robert J. Wingert, executive director of Community Bankers Association of Illinois, based in Springfield.

Many of the new-bank founders have been "wildly successful," says Wingert. "They've taken business from their former employers, quite frankly, and they've also been able to generate some new business."

That's true not only in Illinois, where Gooch's bank is thriving, but in other parts of the country. After just three years, for example, Lovell's First Bank of Idaho has assets of \$55 million and has grown to three locations. Sarasota Bank, founded by Jennings in 1992, has grown to \$85 million in assets.

What do community banks believe they have to offer small-business owners that their larger competitors can't? Bankers, banking experts, and small-business owners suggest the following:

Personal attention. If you call Gooch's bank, he says, you talk to a person. "One of the things that really upsets me, and evidently a lot of other people, is the 'Punch 1 if your house is being foreclosed on. Punch 2 if your car's being repossessed. Punch 3 if you're overdrawn,'" he says. "Just give me a person."

Murphy says community banks excel at personal service. "This is one of their characteristics. They will meet with a small-business owner who may not necessarily have a very tight business plan in place and work with him on the business plan and growing the business to the next level."

Empathy and understanding. Like small-business owners, bank founders are entrepreneurs. "Because we are still a new bank," says Jennings, "we have had the same experiences, the same problems, the same concerns that businesses have—the growing pains, the hiring of personnel." It took 2½ years for Sarasota Bank to become profitable, and Jennings says she knows what it's like to watch the bottom line and to manage growth.

Lovell, who started First Bank of Idaho with his credit card, says he knows "what

it's like to go through the stress of an extremely high growth rate."

The banks headed by Jennings, Lovell, and Gooch all remain small businesses, with about 20 employees each.

Relationship. One of the reasons that Jennings—who got into banking as a teller at age 17—started a bank was that she "just didn't see a true relationship with the customer developing with the large banks."

Gooch says customers should be able to know their banker well enough to just call him or her when they have a special need. He says his staff members will go out of their way to help customers. For instance, when one man couldn't get to the bank during banking hours to fill out mortgage forms, someone from the bank went to the man's home after hours.

David D. Shuster, chairman of the Dallas-based National Institute for Community Banking, Inc., which provides estate planning and succession services to bank owners, says: "If you're a small-business owner and you go to your local banker and he's somebody you've known your whole life, versus [a decision maker in another state], you're going to get a very good audience and the banker will do anything that he can do for you."

Lower fees. In general, says the ICBA's Bavisotto, fees at community banks run 15 percent lower than at large banks, and sometimes there are no fees at all.

Community Bank of Elmhurst generated a lot of publicity one year with its response to a large Chicago competitor's announcement that it would charge a \$3 fee each time a customer needed to speak with a live teller. Countered the upstart on its outdoor sign: "We'll pay you 25 cents if you'll talk to one of our live tellers."

The Chicago Tribune, *Money* magazine, CNN, and other media carried the story. Gooch says his bank paid out \$290.25 in quarters to people who came in and that the bank got the equivalent of \$1 million in advertising.

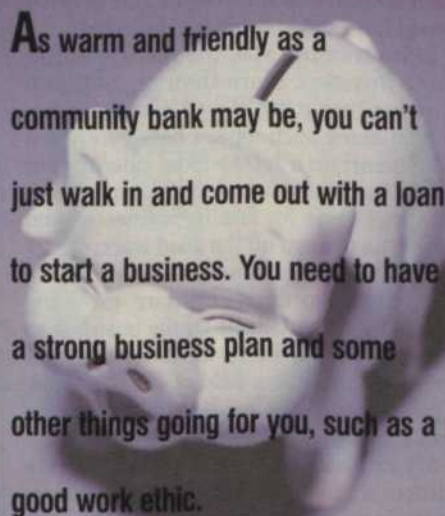
Creativity and flexibility. Most community bankers, if they believe in a small-business owner, will go out of their way to make a loan. They won't break the rules, but they might bend them a little.

A small firm's special circumstances may "need to be creatively taken care of through a certain type of loan or a specially structured lending situation that maybe a large branching operation just simply does not have the flexibility to do," says Wingert of Community Bankers Association of Illinois.

If the amount of money that a small-business owner requires for expansion exceeds the community bank's lending limits, the bank often will partner with another bank to come up with what the business needs.

Even though Gooch's bank's legal lending limit to any customer is \$1 million, he recently was able to package a \$2.5 million loan by bringing in two other banks.

Special services. Small banks are beginning to offer some of the services that their larger counterparts offer, such as ac-



As warm and friendly as a
community bank may be, you can't
just walk in and come out with a loan
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good work ethic.

counts-receivable financing and leasing services. But some community banks go even further.

Sarasota Bank, for example, provides a free courier service that picks up the deposits of small-business customers. By not having to send someone to the bank every day, a small business can gain five or six hours of productivity in a week. CEO Jennings says she's never heard of a large bank offering this kind of service, "but our customers love it."

Technology is enabling community banks to provide services that they couldn't before. Many, for example, are offering small businesses "cash sweep" accounts, which electronically transfer excess checking-account funds into a savings account, where interest can be earned, or sweep cash from savings into checking only as needed to pay bills.

"We want to use technology because I think that's the great equalizer in banking," says Idaho banker Lovell.

Although a community bank can serve the needs of most small-business owners, it can't do everything. If a business is doing a lot of international work or has \$50 million or more in annual sales, it might need the services of a large bank, says Lovell.

And as warm and friendly as a community bank may be, you can't just walk in and come out with a loan to start a business unless you have a sound business plan and some other things going for you—such as the work ethic that chiropractor Jevitz demonstrated.

"Community banks are going to certainly listen very carefully, and if it's prudent to provide start-up capital, they will," says Shuster of the National Institute for Community Banking. "But the community banker, because of the banking regulations, can't give a loan unless it meets certain criteria, regardless of what he might want to do."

To determine whether a bank you're interested in qualifies as a community bank, ask who the owners are and find out if they're local.

"If it's a locally owned bank, the business owner can walk right in to the bank and sit down with the president," says Shuster. "If it's a major bank branch, you're going into the bank and talking to a branch manager who is going to have to fax a financial statement to Dallas or Minneapolis or New York or someplace before you can get an approval for a loan."

More important than whether a bank is locally owned, contends Wingert of Community Bankers Association of Illinois, "is how it actually operates and functions within the market." He suggests paying attention

to whether the bank is returning the deposits that are gathered from that market to that market—in the form of loans or civic involvement, for example.

When you have signed on with a community bank, treat it as you would a partner. The goal of Lovell's bank, he says, is to serve as a financial counselor to small-business owners, on a par with their accountant and attorney.

Take every opportunity to meet with or call your banker for advice and for help in long-term planning, advises the American Bankers Association's Murphy. "It's in the best interest of the community as well as that of the community bank that your business grow and prosper."

Where To Go For Help

To find a community bank near you, call the Washington-based Independent Community Bankers of America toll-free at 1-888-500-5538, or visit its World Wide Web site, at www.icba.org.

Family Business

Bringing down the curtain; tackling an unexpected question of fairness.

OBSERVATIONS

Thanks And Goodbye

By Sharon Nelton

As you saw in the publisher's letter at the front of the magazine, *Nation's Business* ceases publication with this issue. And so, with considerable sadness, I must end these monthly conversations with you and say my farewells.

When I joined the staff of *Nation's Business* in 1983, I was given the go-ahead to initiate and develop the magazine's coverage of family business. This opportunity turned out to be one of the most exciting and satisfying challenges of my writing life.

To my knowledge, none of our competitors covered family business on anything resembling a regular basis. Most of the stories that appeared elsewhere dwelled on scandal, tragedy, and failure—certainly a part of the family-business landscape but by no means the whole landscape.

It was my good fortune to meet Léon Danco, the widely acknowledged pioneer family-business consultant and author, who taught and encouraged me. He made me welcome at his seminars, which gave me an unparalleled chance to meet family-business owners and hear their concerns.

Equally generous with their time and encouragement or their inspiration were other pioneering family-business scholars and consultants who came after Danco, among them John L. Ward (who has written frequently for this magazine with Craig E. Aronoff), David Bork, Patricia Frishkoff, Ivan Lansberg, and the late Barbara Hollander. I owe a great debt to these extraordinary people for my early education in family business and to others too numerous to mention for my continued learning.

In addition to this column, I have been privileged to plan our monthly family-business section and to contribute extended features on family-business topics.

I treasure the many, many family-business owners who have, over the years, shared their stories with me in hopes that they could help other families overcome problems and succeed both as families and as businesses. They have spoken openly with me about many difficult, delicate issues, trusting that I would treat them

with sensitivity and respect in print. I hope I have never betrayed their trust.

I also treasure you, the readers of *Nation's Business*. More than anyone, you have kept me going. We all have bad days, and on many such days, I have received a phone call or a letter from one of you, telling me what a good job *Nation's Business* was doing for family businesses and urging us to keep up the good work.

Your messages convinced me that we were doing something important: providing education for and about family business as well as, I believe, aiding the development of family business as a field of study. In this, *Nation's Business* has been a worldwide leader, and that makes me very proud.

My reflections would not be complete without a nod to my colleagues. Our family-business section is definitely not a one-person show. Its excellence is the product of contributions from copy editors and our art, photo, and production departments. The undertaking has had the strong support of our editor and our marketing and advertising departments. I have worked for a number of newspapers and magazines, and the staff of *Nation's Business* has been the most professional and dedicated I have worked with.

Let me close with one of the most important things I have ever learned about family businesses. While it is true that each family business is unique, it is also true that there are predictable patterns and issues in family business.

This means that there are known predictors for success in family business. You don't have to go it alone. You can learn what it takes to succeed from other successful family businesses, from the many fine experts who study and work with family firms, and from the education programs that are now available. Seek them out. A place to start is the Family Firm Institute in Boston at (617) 789-4200.

Good luck, dear readers. Thank you for letting me be a part of your lives for so many years, and thank you for being a part of mine.



MARK YOUR CALENDAR



June 3, West Haven, Conn.

"Why You Should Always Be Ready To Sell Your Company" is a morning seminar offered by the University of New Haven Center for Family Business. Call Paul L. Sessions at (203) 932-7421.

June 15, Holyoke, Mass.

"Superleadership: Leading Others To Lead Themselves" is an evening seminar sponsored by the Family Business Center of the University of Massachusetts at Amherst. Call Ira Bryck at (413) 545-1537.

June 21-Aug. 20, Bridgeville, Pa.

"Camp Business Cents" is a series of weekly business camps for young people ages 3 to 6, 7 to 10, 11 to 14, and 15 to 18. Call Cindy Iannarelli at 1-800-672-4639.

July 14, Richmond, Va.

"Growth Through Innovation—Using Entrepreneurship to Enhance Your Family Business" is a breakfast meeting offered by the Virginia Family Business Forum. Call Betty Snapp at (804) 828-7288.

Aug. 12-15, Snowmass Village, Colo.

"The Aspen Family Business Gathering" is a conference for families in business. It features five nationally known family-business professionals: David Bork, Leslie Dashew, Dennis Jaffe, Sam H. Lane, and Joe Paul. Call the Aspen Family Business Group at 1-800-835-5883.

Sept. 16-18, Stockholm, Sweden

"Family 2000" is the theme of the 10th annual conference of the Family Business Network, an international organization of family businesses. Contact FBN Sweden, The 1999 Conference Committee, Box 6807, 113 86 Stockholm, Sweden. Phone: 46-8-736-94-82. Fax: 46-8-33-71-14. E-mail: aak@hhs.se.

Sept. 23, Philadelphia

"The Power and Paradox of Succession in Business Families" is the topic of a meeting to be sponsored by the Delaware Valley Family Business Center. Call Henry Landes at 1-800-296-3832.

Case Study: Being Fair To The Family

Hollis says he has three concerns. "I want to be fair to my mom and my sisters, to do what's best for the business, and to begin to position my own career."

After working with his dad, Tom, for five years, Hollis, 36, purchased one-third of Venture Heating Supply, the family's distribution business, for \$400,000 four years ago. Although the company was worth \$1.5 million to \$2 million at the time, the family's attorney felt that the discounted price was justified because Hollis was purchasing a minority interest.

Tom died six months ago, and his two-thirds of the business is in his estate. The executor believes the firm is now worth \$4 million and is exploring ways to sell it.

Hollis' four sisters have their own careers. Though the business assets will go to their mother, they know that, ultimately, the family's holdings will be split among all

the children "fairly." Hollis worries that if the firm is sold, his sisters might think he took advantage of them, since his one-third interest would bring \$1.3 million or more. He can't afford to buy the rest of the company, but he would like to own and operate a division with about \$300,000 of assets.

Should he just go along with the sale of the company and risk ensuing jealousy? Should he offer to simply swap his stock for the assets of the division he wants to purchase? He feels unfairly trapped by his earlier purchase of stock.

Response 1

No Need For Guilt

Family members should view this situation as an exciting planning opportunity. There is something good for everyone: liquidity and financial security for Mom, a good future inheritance for the sisters, and a promising business opportunity for Hollis.

Hollis should certainly not feel guilty. The price he paid for his stock four years ago was fair, and the value of all company stock has increased very nicely since then.

While it is true that Hollis' minority discount disappears in a sale of the entire company, this inherent factor does not spring from his own actions. Family members

should appreciate the fact that Hollis forfeits a lot of opportunities in a sale of the company.

Typically, a single qualified attorney can facilitate planning for the mutual benefit of family members and the company. In this case, however, it is imperative to retain separate attorneys—one for Hollis and another to represent the mutual interests of the company, the executor, and other family members. Disputes could arise many years later if there is a lack of independent and objective legal representation for all.

Hollis and his attorney should be able to negotiate an exchange of a portion or all of his stock for the assets of the division he wishes to own. The value of the stock of the new spinoff company and Hollis' remaining stock in Venture Heating, if any, should be about equal to the fair

market value of his one-third interest in the company. The remaining portion of the company can then be sold to outside buyers, giving Mom financial security.

The children will have to defer to Mom's judgment about "fair" distribution of assets at her death. For now, Hollis should focus on moving forward with his career and business opportunities.



ILLUSTRATION: TROY THOMAS

Response 2

It's An Opportunity

Hollis should not be concerned that his prior purchase of one-third of Venture Heating Supply for \$400,000—now worth \$1.3 million—was unfair to his sisters or mother. At purchase, that was what a minority interest in a company with limited marketability of its stock was fairly worth.

Assuming his mother and sisters have no strong desire to retain interest in the company, Hollis should pursue the purchase of the division he wants.

Hollis should borrow the needed funds, using some of his stock as security (until its sale) to purchase the division. This would return

\$300,000 back into the assets of the company and presumably still permit sale of the business for \$4 million.

Mother and eventually Hollis' sisters would benefit by receiving about \$2.7 million, less estate taxes. There would be no taxable gain, due to stepped-up basis—that is, the value of the business when Tom died. Hollis would have obtained ownership of the division and received his share of the sale of the rest of the company stock.

Hopefully, Mom will begin making gifts during her lifetime to her daughters to reduce her estate and thus minimize or avoid future estate taxes. Hollis would have a capital-gains tax to pay on the proceeds of his stock sale, so he and his mother, who received sales proceeds from the estate not subject to gains tax, are on a more equal footing.

The result is that Hollis gets to achieve his three goals.

The earlier purchase of stock was not a trap but an opportunity. Because Hollis must pay a gains tax, and even though Mom's share of the sales proceeds will be reduced by estate taxes, there is more financial equality between Tom and the rest of the family than is first apparent.



Joe M. Goodman, an attorney, accountant, and family-business adviser with Holton Howard & Goodman, PC, in Nashville, Tenn.



Erwin H. Miller, a partner in Bowditch & Dewey, a law firm in Worcester, Mass.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Boston. You can comment on this case study on the World Wide Web at www.ffi.org/forums.html.

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Hitting On All Cylinders

By Robert Kiener

In 1969, when Terry Ehrich, then a 27-year-old advertising manager at *The New York Review of Books*, bought *Hemmings Motor News* with several other investors, the modest monthly was selling about 30,000 copies and grossing \$250,000 annually. Today, after Ehrich has built the magazine into what's come to be known as "the bible of the car-collector hobby market," it sells nearly 265,000 copies a month and grosses more than \$20 million annually.

Each of those copies of the magazine, which at 800-plus pages looks more like a telephone book, is crammed with about 20,000 advertisements, offering anything a car hobbyist could want.

A recent issue advertised everything from a 1932 Rolls-Royce Henley roadster (for \$650,000) to a wheel-bearing set for a Model T Ford (\$55) to a 1966 Volkswagen Beetle that needed "tinkering" (\$3,200). As car buffs have learned, if you can't find it in *Hemmings*, it probably doesn't exist.

What's the secret of Ehrich's success? The soft-spoken, self-effacing publisher and editor in chief of one of American publishing's healthiest cash cows says the magazine has grown merely by riding the popularity of car collecting and restoring through the past three decades.

"I'm just a mediocre jockey on a helluva

Robert Kiener is a free-lance writer in Stowe, Vt.



PHOTO: GALAN JAKUBIK

With his magazine for car hobbyists grossing more than \$20 million a year, Terry Ehrich, publisher and editor in chief, is riding high.

horse," says Ehrich, 57, in his comfortable, antique-filled office in Bennington, Vt.

Dig a little deeper, however, and it becomes clear that Harvard-educated Ehrich is no average jockey. Rather, he's a savvy businessman who has prospered by listening—and responding—to his customers and employees.

As the magazine began to evolve from a digest-sized publication to the behemoth it is today, Ehrich quickly discovered that subscribers had a fierce loyalty to it. Indeed, many of them, when they renew—a year's subscription costs \$26.95—refer to their "membership." Says Ehrich: "It's as if they feel they are members of a club."

And they are particular about what goes into the magazine. The cover is nothing fancy—it remains a utilitarian brown wrapper. There is no editorial content; aside from a small letters section, the

magazine consists entirely of classified and display ads, many of which are submitted by readers.

"Our readers told us they didn't want editorial," says Ehrich. "So we are simply giving them what they want. In essence they have designed the product." (A sister magazine, *Special Interest Autos*, offers reviews and road tests of classic cars.)

Ehrich added a full-color advertising section in 1989, but the bulk of the magazine consists of small, black-and-white classified ads that cost \$5 to \$10. These are prepaid by check or credit card, which saves the magazine the trouble and expense of billing. "Why make things more complicated for ourselves?" says Ehrich.

Why indeed? As some have noted, *Hemmings Motor News* is a

publisher's dream come true: a magazine with no editorial content and a minuscule sales department—just page after page of advertisements.

Hemmings also sells an annual almanac, calendars, and an array of classic-car memorabilia, and it has a World Wide Web site, at www.hemmings.com.

As *Hemmings* has prospered, Ehrich has plowed much of its profits back into the 135-employee work force, most of which is involved in customer service, fulfillment, and production.

"There's no better investment," says Ehrich. Every employee is eligible for profit-sharing, an annual health-and-fit-

MAKING IT

ness reimbursement, and dependent-care benefits, and men receive paternity leave. Each fall, befitting the company's Vermont location, employees get to pick five bushels of apples for free at a nearby orchard that was slated for development before the company bought it.

Ehrich believes the community is important, and he urges his employees to take

part in it. Once a year they receive a half day with pay to pick up litter along local roadsides, and they are paid to participate in local and regional parades, driving the company's collection of vintage vehicles.

Ehrich also founded the First Day Foundation, a national program that encourages employers to let workers accompany their children to the first day of school each year.

All these programs are close to Ehrich's heart, but he notes that each also benefits the business.

"They all make people feel better about their community and themselves," he says. "And anyone who feels better about himself or herself does a better job. Every employee benefit we pay out is returned to us over and over." ■

Upper-Crust Service

By Janine Latus Musick

As the founders and owners of Peggy Jean's Pies in Columbia, Mo., Peggy Day, 72, and Jeanne Wagster, 45, start baking every day at 4 a.m.—peeling apples, shaping crusts by hand, and sticking to the tried-and-true recipes they have long served to their families.

Both spent years working in the mortgage-lending industry, dreaming about opening their own businesses. Five years ago the two, who had met and become friends at church, drew up a four-page survey and called 100 people to see if they liked the idea of buying home-baked pies.

The answer was an enthusiastic "yes." So, with less than \$1,000 in start-up cash, they bought a \$50 refrigerator, pie pans, and a mountain of groceries, and they set up shop in an out-of-the-way warehouse.

To drum up retail customers, Wagster says, "Peggy and I would bake up whole pies and load them up in the back seats of our cars. I'd double-park and she'd run into a business with a fresh, hot apple pie."

For a month they gave away the pies, asking only that people come back for more if they liked them. People did.

Just before Thanksgiving that fall, the partners stayed up 36 hours straight, making 270 pies. Wagster recalls that she was so busy that she didn't even have time to bake pies for her family.

In the spring of 1995, the partners set up a four-table restaurant in their warehouse, selling pie by the slice along with coffee and tea. Then Wagster suggested making "baby pies."

"I kept saying it was a bad idea," Day

says. "One day she up and bought the tins and made some, and they were so cute we just ate the first one. Then this man came in and asked what we called them, and Jeanne said, 'Baby pies.' He bought every one we had."

Today, Day and Wagster and their seven employees whip up more than 2,000 big pies and 30,000 baby pies a year, bringing

In 1995, the pair moved downtown, but some customers didn't want the bother of parking there. So the pie makers let them call ahead, then drive into the alley behind the bakery and restaurant. (The alley has since been blocked off for construction of a parking garage.) "We would run out to their car and sell them their pie out the back," Day says. "My son said it looked like a drug deal."

But it also was an example of a key to the company's success: exceptional service. One customer, for instance, wanted a gooseberry pie to take home for the holidays, but she was leaving for the airport at 7:15 a.m.

Day and Wagster had the pie ready for her.

Then there was the elderly woman who wanted a chocolate pie for her sister, who would be visiting the next day. The customer was unable to drive, so Day and Wagster delivered. "The next morning we came in at about 3:30, and there were these phone messages from her," Day says. "She had eaten the whole pie and didn't have any pie for her sister, and was there any way we could bring her another." They did.

In 1996, to carry the restaurant through slow periods, Peggy Jean's started offering lunch in addition to pie by the slice.

"Before the holidays, we're buried in pie orders," Day says, "but in January people are either broke or on a diet. That wears off after a little bit and they say, 'What the heck,' and start ordering pies again."

The reputation of Peggy Jean's has grown such that their restaurant is a stop for some tour buses.

Day and Wagster say their company is a labor of love, and they have advice for women who

want to become entrepreneurs. Says Wagster: "Women tell us they want to get into business for themselves, and I say, 'Are you ready to have another baby?' Because if you're not ready to stay up in the middle of the night or do things when you don't want to or act cheerful no matter what, you're not ready." ■



PHOTO: SCHUCK KNEISE—BLACK STAR

The pies made in Columbia, Mo., by Jeanne Wagster, left, Peggy Day, and their seven employees have become a hot item.

in \$200,000 in revenue. Most of the pies are sold locally, but there is also a brisk mail-order business selling to people who have passed through Columbia or who have visited the company's World Wide Web site, at www.peggyjeanspies.com. The partners have also started selling through a local grocery chain.

Janine Latus Musick is a free-lance writer in Columbia, Mo.

A Fast Track To Success

By Katherine J. Paul

It's tough to say what contributed more to the start-up of High Tech Performance Trailers, Inc.—Bruce Hanusosky's passion for auto racing or his irrepressible entrepreneurial spirit.

There's little question, however, why the Painesville, Ohio, company—which builds trailers used to transport race cars and their crews—is a thriving enterprise. Hanusosky subscribes to a no-excuses policy on quality and deadlines. And he insists on reinvesting profits and staying out of debt.

"The biggest problem I see with business start-ups is overspending," says Hanusosky. Once a company sinks up to its neck in debt, stress infiltrates every aspect of operations, he says. In the panic to make ends meet, quality suffers. And then customers move on.

Hanusosky, who describes himself as a born entrepreneur, moved from Kool-Aid stands as a youngster to wheeling and dealing in motorbikes and go-carts. Then, when he took up drag-racing as a teenager, he started doing custom paint jobs. Fellow racers admired his work, and soon he was designing paint schemes for others.

In 1970, at 21, Hanusosky used \$5,000 in savings as a down payment on a gas station. Six years later he sold the station at a tidy profit and opened an auto-repair shop.

The auto-repair business went well, but Hanusosky's love of racing led him to an even more lucrative line of work. In the late '70s, a friend who worked for a racing team sponsored by BFGoodrich Co. called Hanusosky one day to ask if Hanusosky could repaint the team's car for the Cleveland Car Show, which was only three days away. The car had taken a beating in the Baja 1000, a rugged off-road race in Mexico, and needed refurbishing.

Hanusosky's turnaround time and paint job so impressed the director of the racing team that Hanusosky was recruited to travel with the team several times a year as a maintenance contractor. The trips en-

abled him to network with the racing community, and they also sparked the idea for High Tech Performance Trailers.

Hanusosky looked at the trailers used for transporting cars and crews, he says, and concluded that "this has to be a good business. Racing is lucrative." Even so, he

makers, and other craftsmen who turn empty trailer bodies, supplied by Kentucky Manufacturing Co. in Louisville, into traveling homes for race crews and cars.

Hanusosky says one reason his company is successful is its commitment to delivering a quality product on time. "When we sell a trailer, we sell a delivery date," he says. Yet he allows no corner cutting. The company has to decline four or five orders a year to avoid risking inferior quality or missed deadlines.

Hanusosky's interior-design team works with each customer to select design features and materials down to the last detail—from polished hardwood floors and supple leather couches to custom cabinets, plush carpeting, and fully equipped offices.

The company's reputation for elaborate interior design has prompted requests from companies outside the racing industry. One such request led to the construction of a medical trailer with five surgery tables.

High Tech Performance Trailers also produced a \$600,000 trailer for NASA's John H. Glenn Research Center in Cleveland, formerly the Lewis Research Center. The trailer is used to teach college students about space travel.

Besides the trailer division, the company has units that provide maintenance for race cars and manufacture awning extensions for trailers. Recently, Hanusosky added a custom-paint shop to the trailer division. "People go in circles in business," he says. "I started out in custom painting. Thirty years later, I'm back at it."

Hanusosky knows the hard work and hard knocks of entrepreneurship. "You've got to do a lot of legwork, a lot of research before starting a company," he says. And you need financial savvy, he adds, because capital

can be scarce. "You've got to save as much money as you can, and work your money, until the bank looks at you and sees that you're profitable."

The work has paid off. Hanusosky now pursues his dream of racing. He owns the No. 07 Chevrolet Monte Carlo driven by Morgan Shepherd on the NASCAR Busch Series Grand National Division, a qualifying circuit for NASCAR's Winston Cup Series. Together, Hanusosky and Shepherd travel the country to race. Hanusosky sees it at the very least as a great way to stay in touch with customers.



PHOTO: GMIKE STEINBERG—BLACK STAR

With a reputation for quality and meeting deadlines, Bruce Hanusosky's company—which makes trailers used to transport race cars and their crews—is going places.

thought, the trailers were not as nice as they could be.

Hanusosky built his first transport trailer in 1982 and sold it to BFGoodrich for \$40,000. Within a year he sold the auto-repair business, and he and his wife, Judith, started making transport trailers.

Today, High Tech Performance Trailers turns out about 30 trailers a year; most are priced at \$150,000 to \$250,000. In the past five years, annual revenues have grown from about \$3 million to \$7 million.

The company's trailer division employs about 55 electricians, machinists, cabinet-

Katherine J. Paul is a free-lance writer in Hiram, Ohio.

Editorial

A New Approach For A New Century

Early in the 20th century, the newly formed U.S. Chamber of Commerce established *Nation's Business* as a key source of information on federal activities affecting the private sector.

Published as a newspaper from April 1912 to November 1915 and as a magazine thereafter,

Nation's Business performed its function with great effectiveness through two world wars, the Depression and several recessions, postwar adjustments, the social upheavals of the 1920s and 1960s, the advent of the computer age, the Cold War and its aftermath, the changing attitudes and environment of the workplace, the longest and strongest economic boom in the nation's history, the emergence of the global economy, and the vindication of the market system as the best hope for keeping a nation prosperous.

Coverage in the monthly publication was extended over the years to advice on successful management techniques, business start-ups, finances, the use of emerging technologies, and how to take part in foreign trade.

With this issue, however, *Nation's Business*, which has enlightened readers with relevant content for most of this century, will cease publication.

In the rapidly approaching new century, the U.S. Chamber of Commerce will nevertheless remain the leading resource through which companies of all types and sizes can obtain the critical knowledge they need to operate successfully in today's fast-changing, complex business world.

The Chamber, which has long been in the forefront of the information-technology revolution, will continue to provide information for companies through its World Wide Web site and will explore additional opportunities

for delivering information, such as a radio show. It will also continue to produce *The Business Advocate*, the newsletter that keeps Chamber members informed about the organization's efforts on their behalf. Plans call for expansion and improvement of that publication.

Thomas J. Donohue, president and CEO of the business federation, said in announcing the increased emphasis on use of the Internet as the Chamber's principal communications vehicle: "Changes in business and in the issues that affect business occur today with lightning speed.

Our members need information

fast so that they can respond quickly to industry developments or to public-policy proposals that threaten their companies. Expanding our online communications will enable us to more effectively serve, inform, and rally the 3 million businesses that make up the Chamber federation."

The Chamber Web site, at www.uschamber.org, now links the organization with more than 800 state and local chambers of commerce, and important events featuring prominent national and international figures are cybercast as they occur. The expansion is expected to link additional

hundreds of chambers and hundreds of thousands of small businesses to Chamber information services.

The Chamber site gives visitors access to a broad range of information on policy issues. U.S. Chamber members can access an additional area containing more extensive coverage of issues and activities of concern to business.

The combined impact of the changes in the Chamber's communications program, Donohue summed up, will be a "significant improvement in our ability to communicate quickly with our members, grassroots activists, state and local chambers, and other associations—and through them to the Congress and the administration."



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